alliander

working together on smart energy

Annual report 2011

at a glance

Important events
and results in 2011

Electricity outage duration

Substantial fall in Liander's electricity outage duration from 31.2 minutes in 2010 to 20.0 minutes in 2011.

Urgenda Foundation

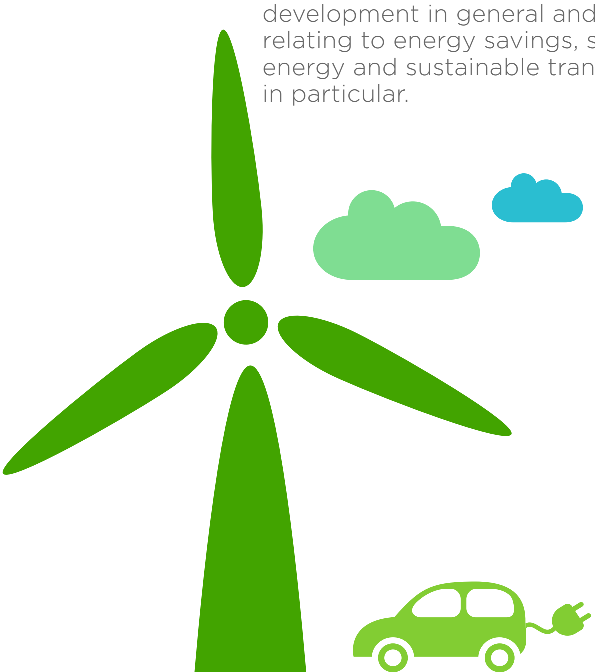
Cooperation with Urgenda Foundation: accelerate sustainable and innovative projects at local level together.

Smart grids

First steps towards smart grids taken: 29 substations equipped with SAS sensors. Short-circuit detectors were also installed and networks strengthened.

Green Deals

Participation with the government in five Green Deals for sustainable economic development in general and measures relating to energy savings, sustainable energy and sustainable transport in particular.



Customer satisfaction

Satisfaction levels among consumers and business customers outperforms a benchmark of Dutch network operators.

Credit rating adjustment

Standard & Poor's adjusted Alliander's long-term credit rating from A to A+ with a positive outlook.

National Connection Register

In September 2011 Liander was the first network operator to transfer its customer connection data to the National Connection Register (C-AR).

Result

251 Net profit for 2011

€ million

Safety

Injury of two people in a gas explosion in Het Duifje (Arnhem) emphasises the importance of gas network safety.

Investments

Investments in our networks rise from € 368 million in 2010 to € 475 million in 2011.

+107

€ million

Participation

Participation in Locamation, an innovative company developing and supplying sensor technology for energy networks.

Locamation
smart smart grid solutions

Open for details of important events and our results in 2011

at a glance

Stakeholders	Ambitions	Core values
Customers	We are the number one service provider in the eyes of customers in the regions in which we operate	Committed
Society	We are the natural partner in developing and implementing energy policy	Reliable
Employees	We are an innovative, successful company working with energy and drive to create a better society	The best
Shareholders and lenders	We are a robust, socially and economically responsible investment	

Mission
We are striving for a better society in the regions in which we operate

Alliander in 2011

Number of employees
6,647 fte

Market share
37 %

CO_2 emissions
836 ktonnes

Revenue
1.6 € billion

Customer satisfaction
in consumer market
92 %

Customer satisfaction
in business market
89 %

Key data Alliander[1]

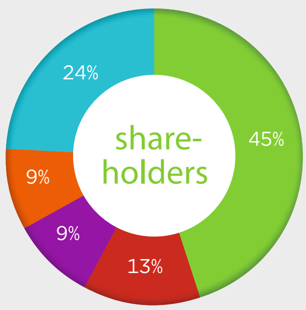
		Unit	2011	2010
Customers	Number of consumers	in thousands	3,293	3,251
	Percentage of satisfied consumers[1]	per cent	92	91
	Number of business customers	in thousands	33	34
	Percentage of satisfied business customers[1]	per cent	89	87
	Average outage duration per customer[1]	min. per year	20.0	31.2
Society	CO_2 emissions	ktonnes	836	801
	Employees at a disadvantage on the labour market[3]	number	74	71
	Waste	ktonnes	20	12
	Socially responsible procurement (SRP)[1,2]	per cent	30	24
Employees	Number of employees at year-end	FTE	6,647	6,044
	Absenteeism	per cent	4.1	3.9
	Lost Time Injury Frequency (LTIF), average number of accidents involving absence from work per million hours worked[2]	number	3.2	2.6
	Employee satisfaction survey score	rating	8.3	8.1
Shareholders and lenders	Revenue	€ million	1,586	1,432
	Profit after tax	€ million	251	222
	ROIC	per cent	7.2	6.9
	Total assets	€ million	7,318	7,400
	Capital expenditures on property, plant and equipment	€ million	475	368
	Credit rating Alliander N.V.	S&P	A+/A-1/Positive outlook	A/A-1/Stable outlook
		Moody's	Aa3/P-1/Stable outlook	Aa3/P-1/Stable outlook

1 Key data for 2011 and 2010 on customer satisfaction, outage duration and SRP concern Liander. The key data for 2010 on customer numbers, FTEs and financial KPIs are shown including the companies acquired in 2010 (Endinet and Stam & Co). The other KPIs for 2010 are shown exclusive of acquisitions.
2 Owing to a change in the applicable reporting policy, the SRP, LTIF and CO_2 emission figures for 2010 have been adjusted for comparison purposes.
3 Alliander provides support to people whose personal circumstances make it more difficult for them to find work.

Our organisation

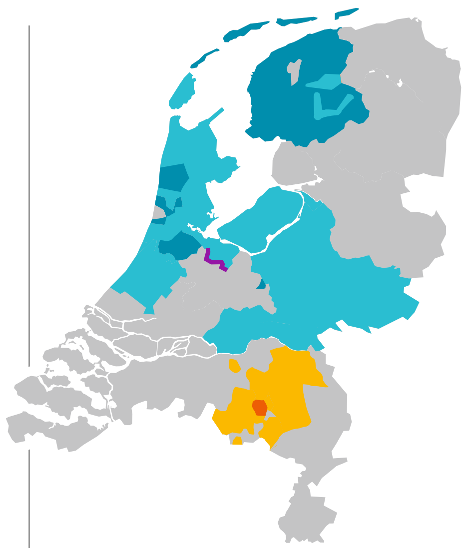
alliander

- liander – an alliander company
- endinet – an alliander company
- liandon – member of alliander
- Other activities



The shares of Alliander N.V. are held by Dutch provinces and municipalities

- Gelderland
- Friesland
- Noord-Holland (excl. Amsterdam)
- Amsterdam
- Other



Liander
- electricity and gas
- electricity
- gas

Endinet
- electricity and gas
- gas

Disclaimer

'We', 'Alliander', 'the company', 'the Alliander group' or similar expressions are used in this annual report as synonyms for Alliander N.V. and its subsidiaries. Liander refers to the network operator Liander N.V. and its subsidiaries. The name Endinet refers to the Endinet Groep B.V., to which the network operator Endinet belongs. The name Liandon refers to Liandon B.V., while Stam refers to Stam Heerhugowaard Holding B.V. and its subsidiaries. Alliander N.V. owns all the shares in Liander N.V., Endinet Groep B.V., Liandon B.V., Alliander Telecom N.V., Alliander Participaties B.V., Verlian B.V., Stam Heerhugowaard Holding B.V. and Alliander AG.

Parts of this annual report contain prospective information. These parts – without exception – 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 therein.

Such statements are preceded or followed by words such as 'believes', 'expects', 'thinks', 'anticipates' or similar expressions. These prospective statements are based on current assumptions 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.

This annual report is a translation of the Dutch annual report of Alliander N.V. for the 2011 financial year. Although this translation has been prepared with the utmost care, deviations from the Dutch annual report may 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 for 2011 will prevail.

1 Alliander in focus

2 financial

3 transparency

4 financial statements

5 other

about this report

We are pleased to present you with the annual report for 2011 of the network company Alliander. As in previous years, the Corporate Social Responsibility Report and the financial report have been integrated into a single document. This enables us to illustrate 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 previous years, we comply with the B+ application level in 2011. The complete GRI table can be found in the online annual report (http://jaarverslag.Alliander.com).

Consolidation

The consolidated annual report comprises the financial and corporate social responsibility information of Alliander and its subsidiaries. Important subsidiaries in 2011 included Liander, Endinet and Liandon. The financial and corporate social responsibility information of subsidiaries is consolidated. The name Endinet, as used in this report, refers to the Endinet Group. Where information exclusively concerns the network operator Endinet, this is explicitly stated. In connection with the acquisition of Endinet with effect from1 July 2010, no corporate social responsibility information is given about Endinet for 2010, unless otherwise indicated. The most important data for the network operators (page 7) include Endinet and concern full-year 2010. The employee numbers and FTEs for the 2010 financial year are also inclusive of Endinet. Insofar as relevant, this report contains corporate social responsibility information for Alliander AG and Stam.

Transparency Directive

Alliander applies the Transparency Directive and the provisions from the Decree on Corporate Governance 2009 that are relevant for Alliander. Among other things, this is expressed in the mandatory inclusion of the management statements in this report. 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.

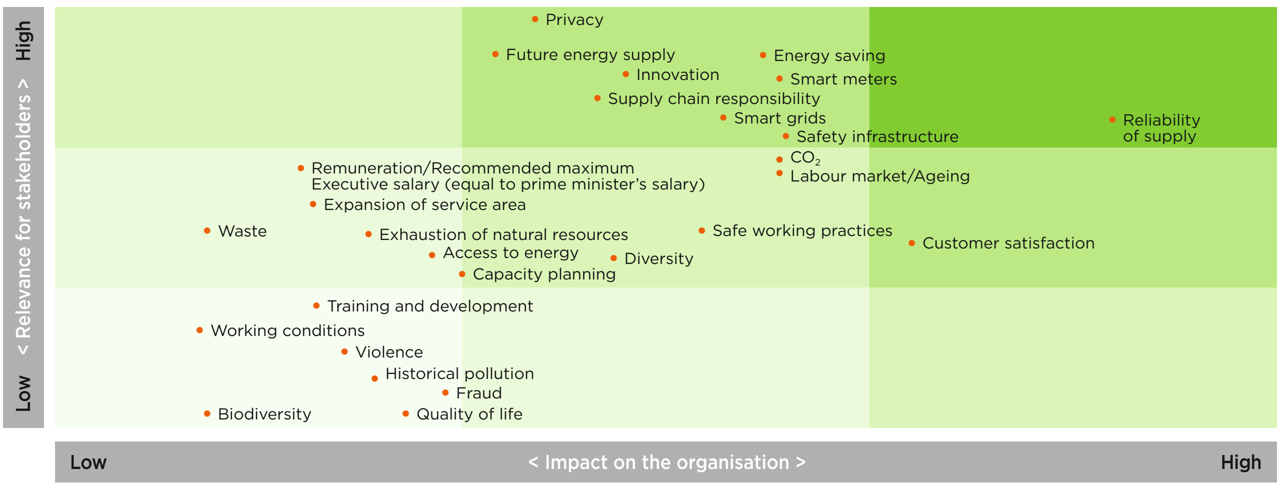
Materiality

In determining the composition of this annual report, Alliander drew on input from stakeholders. The (corporate social responsibility) topics were selected and prioritised according to their impact on our stakeholders and the organisation. An overview of topics and themes with a high materiality level can be found below. Further information can be found on page 162 of this report.

Verification

The financial statements, which form a separate part of this report, received an unqualified audit opinion from PricewaterhouseCoopers Accountants N.V. The audit opinion is included on page 158 of the report. This report describes the activities and results by which we demonstrate our corporate social responsibility. PricewaterhouseCoopers N.V. has reviewed this information in the 'Alliander in Focus' section. The Assurance report provides limited assurance and is included on page 50 of the report.

Materiality subjects/themes



introduction

As a network company we stand for reliable energy transport to our customers, both today and in the future.

Alliander's main focus in 2011 was to continue increasing the reliability of our network and the investments in smart energy networks. As a network company we stand for reliable energy transport to our customers, both today and in the future.

Though a young organisation, Alliander has a long history in Dutch society. For almost 100 years we have been responsible for the regional energy networks operated by us and since 2009 we have been active as an independent network company. We are closely involved in the regions in which we operate and continually work to strengthen our connection with society. By constantly making energy networks smarter and more flexible, we can respond to our customers' changing energy needs and facilitate the drive towards renewable energy. And by enabling customers to keep track of their energy consumption, we are helping them achieve savings.

Safety is of paramount importance in our activities. Unfortunately, last year we were confronted with a heavy gas explosion at a home in Het Duifje, a residential area in Arnhem. This serious incident had a major impact on the residents and wider community as well as on our employees and organisation. In the past year, the reliability of supply of our electricity networks received extra attention. Thanks to technical and operational solutions, we were able to reduce the outage duration by around 35%. We are proud of this, because we know that the reliability of our services has a direct bearing on our customers' lives. Our experience shows that society is increasingly dependent on an uninterrupted supply of energy for vital services such as heating systems, internet services and home care. Alliander is fully equipped to support our modern society with reliable energy transport.

Our customers can count on us for reliable and safe transportation of energy via our networks. On behalf of the Management Board I would therefore like to thank everyone in and outside Alliander who is helping our great company to pursue its ambitions and activities.

It is with special gratitude that we commemorate Mr Gerrit Ybema, who died on 15 February 2012. As a member and deputy chairman of the Supervisory Board, he made a greatly appreciated contribution to our company.

Peter Molengraaf
Chairman of the Management Board

profile

1

Alliander in focus

Alliander is an energy network company. As such, we provide regional transportation of electricity and gas to our customers. Safe, reliable and affordable. In the Netherlands 3.3 million customers use our services every day.

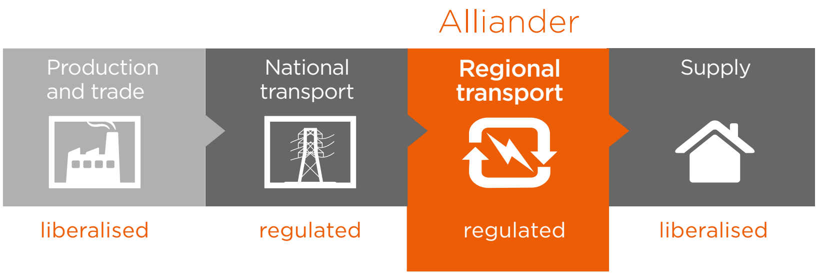
"To meet the energy needs of today and tomorrow, Alliander is working on a future-proof network."

Core tasks

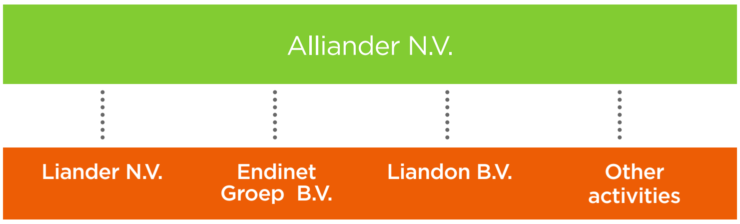
Alliander is responsible for the transportation of energy in various regions in the Netherlands and we distribute electricity and gas to customers via our energy networks. To meet the energy needs of today and tomorrow, Alliander is working on a future-proof network. Our network operators take care of the construction, maintenance, expansion and renewal of electricity and gas networks.

Our role in the value chain

The energy chain is a series of interconnecting links from production to consumption in which various market parties play a role. The production, trade and sale of energy to customers take place in a free market, where customers choose their own energy supplier. The regional transportation of energy is the exclusive responsibility of network operators.



The structure of our organisation



Alliander

Alliander N.V. is the holding company and the legal entity comprising all group companies and subsidiaries. The shareholders of Alliander N.V. are Dutch provinces and municipalities. The largest shareholders are the provinces of Gelderland, Friesland and Noord-Holland and the municipality of Amsterdam.

About 80% of Alliander's revenue comes from activities related to connections and the transportation of energy by Liander and Endinet. About 10% of the revenue is generated from the metering services, which is another activity of the network operators Liander and Endinet. The connection and transportation services as well as the metering services for small-scale users are supervised by the Office of Energy Regulation. The tariffs related to these activities are subject to official regulation.

Approximately another 10% of Alliander's revenue comes from the other activities, such as the construction and maintenance of complex energy infrastructures by Liandon, as well as the unregulated activities of the network operators.

Liander and Endinet: the network operators within Alliander

The network operators Liander and Endinet operate the electricity and gas networks. The tasks of the network operators evolve from the Electricity Act 1998 (E-Act) and the Gas Act (G-Act) and are regulated. These tasks include:

- the construction, maintenance, expansion and renewal of electricity and gas networks including the realisation of connections;
- the distribution of electricity and gas through these networks;
- the assurance of the safety and reliability of the networks;
- the facilitation of the energy market for production and supply.

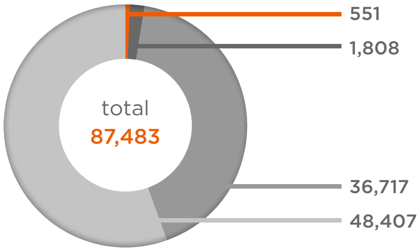
Key Data 2011

Network operations Electricity

Connections (in thousands)

Number of new electricity connections
Number of active electricity connections

Size of electricity transport network (in km)



High-voltage (110/150 kV)
Intermediate voltage (50 kV)
Medium-voltage (3/10/20 kV)
Low-voltage (0,23 kV)

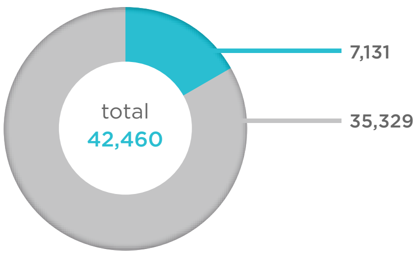
Transported electricity volume (GWh): **30,576**

Network operations Gas

Connections (in thousands)

Number of new gas connections
Number of active gas connections

Size of gas transport network[1] (in km)



High-pressure (> 0,2 bar)
Low-pressure (≤ 0,2 bar)

Transported gas volume (million m^3): **7,039**

Regional electricity networks

The regional electricity networks of Liander and Endinet consist of pipes and cables, stations and customer connections. The electricity networks up to 50 kV are owned by the network operators. The electricity grids with a higher voltage are owned by the national grid operator TenneT TSO B.V.[1] The grids enable the distribution of electricity and the supply of energy to customers. In addition, energy from decentralised sources (50kV or lower) is fed into the network via these grids.

Regional gas networks

Liander and Endinet's regional gas networks consist of high- and low-pressure networks, gas distribution stations and customer connections. The gas networks of 30 mbar to 8 bar are owned by the network operators, while those with a higher network pressure are owned by Gas Transport Services B.V., the national operator for gas.

Liander

Liander operates the energy networks in the province of Gelderland and portions of the provinces of Noord-Holland, Flevoland, Friesland and Zuid-Holland. Liander distributes electricity and gas to, respectively, about 2.9 million and 2.2 million households, businesses and institutions. The activities of the network operator Liander account for the largest part of Alliander's revenue.

Endinet

Endinet is responsible for the energy networks in the Eindhoven and Oost-Brabant regions and distributes electricity to over 100,000 and gas to almost 400,000 households, businesses and institutions.

Liandon

Liandon is Alliander's knowledge centre and largely responsible for our technological innovations. Liandon designs, constructs and operates infrastructures in the field of electricity, gas, heating and cooling. The company helps network operators and other customers find tailor-made solutions to complex energy transport issues. Liandon is active throughout the energy transport technology chain: from advice to design and maintenance. Liandon's sphere of activity comprises the whole of the Netherlands and the company is also active in Belgium and Germany.

Other activities

Alliander N.V. holds 100% of the shares in Stam and Alliander AG, among others.

Stam

Stam is a medium-sized contracting company based in Noord-Holland and carries out network construction and maintenance activities on behalf of Liander and third parties.

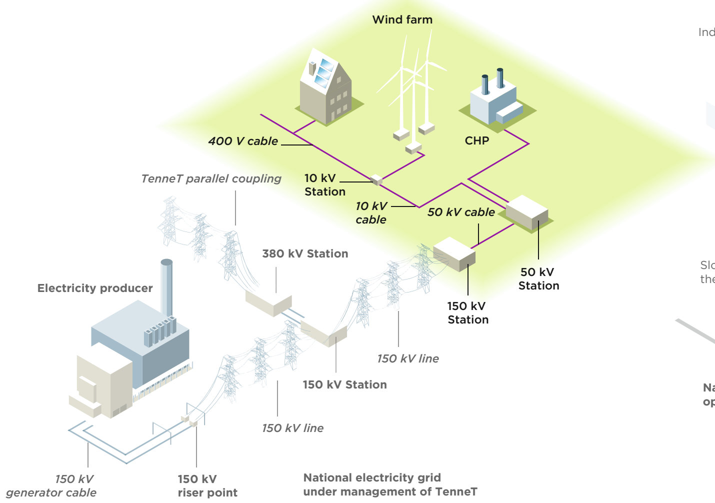
Alliander AG

Alliander AG engages in activities in the field of network operations and public (street) lighting in Germany.

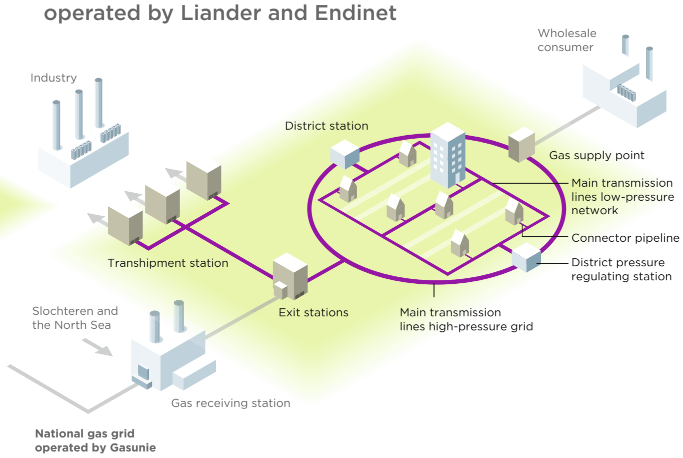
In addition, Alliander has interests in e.g. Ziut B.V., N.V. Kema, Plugwise B.V., Locamation B.V. and Reddyn B.V.

1 One exception concerns the high-voltage grids in Flevoland and the Randmeren region which have not been transferred to TenneT TSO B.V. as they form part of a US cross-border lease (CBL) arrangement.

Regional electricity network operated by Liander and Endinet



Regional gas network operated by Liander and Endinet



management board



Peter Molengraaf, MBA

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

Career

From 2005 to 2009 Peter Molengraaf held various management positions at Nuon. His last position at Nuon 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 Verkoop-maatschappij.

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.
- Member of the Members' Council of Netbeheer Nederland (Association of Energy Network Operators in the Netherlands)
- Board member of the employer's 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 (CFO) of Alliander since 1 January 2010.

Career

From 2008 to 2010, Mark van Lieshout was Alliander's Director of Finance, Treasury and Fiscal Affairs. Between 2003 and 2008 he was finance director of N.V. Nuon Business. Prior to 2003 he held various positions, including Chief Financial Officer of 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.

Supervisory Board memberships/ other positions

- Member of the Supervisory Board of Canisius-Wilhelmina Hospital

what we stand for

Alliander plays an important role in society in the transportation of electricity and gas to its customers. Our work involves facilitating the social and economic development of regions and supporting our customers at any time of day. We are also preparing for a future in which the generation and consumption of energy will change considerably.

Our mission

We are striving for a better society in the regions in which we operate.

Our 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.

Energy is in motion. More and more customers are starting to produce their own energy from wind, sun, biogas installations, combined heat power systems and thermal energy installations. Alongside conventional coal-fired generation, power is increasingly being generated from renewable sources. The same applies to the production of gas. On the demand side, society's more intensive use of electrical appliances and the rise of electric transport is leading to increased consumption of electricity. As a result, our customers are more and more dependent on an uninterrupted supply of energy.

Alliander sees facilitating the transition to a renewable and dynamic energy supply as a key responsibility. We aim to support customers in both urban and rural areas as best we can in meeting their specific energy needs. Amidst all these changes, Alliander continues to provide its electricity and gas transportation services within a framework of cost-efficiency and social responsibility.

our strategy

As the pace of change gathers momentum in the energy landscape, we are responding more than ever to the needs of the world around us. Alliander facilitates society to take advantage of the opportunities created by a sustainable future. We are working on a reliable, safe and sustainable energy supply: for today and the decades ahead.

Our task, as we see it, is to manage energy flows. Alliander enhances energy networks with information technology in order to also effectively manage dynamic energy flows. In the coming years, Alliander will vigorously pursue the development and application of intelligent networks. These networks enable us to better manage and control the energy flows of the future. They also help to reduce the occurrence and duration of power outages, while smoothing the way towards larger-scale energy feed-in.

Alliander helps consumers, businesses and municipalities to gain insight into their energy consumption and savings options. We also help them generate energy from renewable sources. As energy needs and self-generation opportunities vary strongly from location to location, we have opted for a regional approach. We are also developing our knowledge and competences to form a clear picture of the energy needs of today and tomorrow. We seek to maintain a dialogue with our customers and to work together to find solutions to energy issues. In doing so, we are preparing our energy networks for future developments.

Innovative energy consumption not only helps to improve the energy supply, but also contributes to economic growth in the regions where we are active. Customers also play a major role in giving shape to the changing energy supply. For instance, by embracing new approaches to housing, transport, spatial planning and work. Alliander supports these initiatives by working with regional and local government, businesses, associations and educational institutions. We bring various parties together and participate in sustainability initiatives. Together we find innovative answers to challenging issues in the field of policy, organisation and technology.

"As local energy needs and self-generation opportunities vary, we have opted for a regional approach."

Strategic themes 2010-2015

Alliander's strategy for the coming years seeks to accelerate progress in five areas.

1 Customer first

Our customers are our top priority. Alongside consumers, businesses, municipalities and provinces, our customer base also includes parties in the energy chain, such as energy suppliers. In addition to the reliable transport of energy, our ambition is to offer customers innovative products, services and support.

2 Operational excellence +

Customers expect us to deliver affordable quality. The emphasis in the coming years will be on more efficient and smarter working practices to reduce costs and prevent interruptions, faults and risks. Affordability for us goes hand in hand with social responsibility. The same level of attention we devote to cost efficiencies also goes to operational safety, CO_2 reduction and socially responsible procurement.

3 Sector optimisation

We actively seek cooperation within the sector. By developing and sharing knowledge and expertise, we achieve maximum synergy for the Netherlands as a whole. Together we can make processes more efficient, sustainable and customer-friendly. Optimisation may also include exchanging geographically dispersed service areas between network companies. This enables network operators to operate more efficiently and gives customers and other stakeholders a single point of contact in their area.

4 Facilitating the energy transition

As solar panels, wind turbines and biogas become more widespread, the share of sustainable – often locally-generated – energy is continuing to grow. This is increasingly creating a two-way energy flow in our networks. We transport energy to our customers, but our customers also feed energy back. This development has important implications for the energy networks. By applying information technology in our energy networks, we are better able to match energy supply and demand.

5 Modern employment practices

Committed, highly-trained and motivated employees make the difference thanks to their professionalism and skills. We invest in recruiting the best people and as a modern employer, we are able to attract and retain talent. Alliander offers employees flexible employment conditions and personal development opportunities, while also encouraging their personal contributions to social initiatives. Alliander aims to be a good employer.

"Our aim to contribute to society means developing an organisation with an eye for dialogue, transparency and innovation."

Implementation of the strategy

Alliander is a financially healthy network company. A solid foundation makes it possible to achieve our business and social objectives. Taking our financial policy as our starting point, investments are tested for social acceptance, regulatory compliance and the need to generate an adequate return.

Our objectives are actively pursued and accounted for through our Corporate Governance structure and remuneration policy. Alliander's business units provide clear reports on their contribution to our business and social objectives. The achievement of these objectives is monitored via the planning and control cycle.

Control

The strategic themes of Alliander form an integral part of the business plans and are translated in the Alliander annual plan into short-term objectives. One important part of the annual plan consists of our corporate dashboard, which comprises the key performance indicators. These performance indicators are subdivided according to our stakeholders, namely customers, society, employees, shareholders and financiers. The Alliander annual plan is approved by the Supervisory Board and was published externally for 2011.

Every month the results are measured, reported and discussed with the Management Board. And each quarter the progress of the implementation of our strategy and the annual plan is reported to and discussed with the Supervisory Board. The realisation of objectives forms an important part of the variable remuneration of Alliander's Management Board and employees.

Our aim to make a social contribution means developing an organisation with an eye for dialogue, transparency and innovation. All business units are supported in their efforts to achieve agreed social objectives. Crucial aspects in this connection are chain cooperation and the stakeholder approach, the quality of our ambitions, the embedment of CSR (and scope for innovation), achieved results and our transparency. The CSR department assists and supports this development under the direct responsibility of the CEO.

An overview of our objectives and results per stakeholder can be found in the table on the next page. Explanatory notes to our activities are contained in the subsequent chapters.

objectives and results

Safety	Objectives 2011	Results 2011	Objectives 2012
Safe working environment for our employees Long-term objectives: An LTIF score of 2.0 in 2016 See also page 45	**LTIF (Lost Time Injury Frequency)** Strengthen safety management based on recognised standards to reduce LTIF to 2.8	3.2 There were 33 accidents involving absenteeism, leading to an LTIF of 3.2	**LTIF** Reduce the number of accidents involving absenteeism, so that the LTIF falls to 2.8 or lower

Customers	Objectives 2011	Results 2011	Objectives 2012
Improve customer satisfaction Long-term objectives: Number one service provider in the eyes of our customers See also page 18	**Customer satisfaction**[1] Customer satisfaction outperforms a benchmark of Dutch network operators	**Consumer market** 101% versus benchmark **Business market** 107% versus benchmark	**Customer satisfaction** Customer satisfaction continues to outperform a benchmark of Dutch network operators
Increase the reliability of energy supply Long-term objectives: Maximum of 20 outage minutes in 2015 See also page 19	**Electricity outage duration**[1] Reduce the number of outage minutes to 24 minutes	20.0 Average outage duration in minutes	**Electricity outage duration** Maintain low outage duration. Objective for 2012 is 22 minutes
	Number of postcode areas with more than five interruptions[1] Maximum of 25 postcode areas are affected five times per year by an interruption	28 Postcode areas	**Postcode areas with more than five interruptions** Reduce the number of postcode areas with more than five interruptions to a maximum of 25
	Number of substations equipped with SASensors[1] To trace faults more quickly, we will equip 50 substations with SASensors	29 Substations equipped with SASensors	
	Quality of meter installations[1] To guarantee the safety of our customers, 100% of our meter installations must be carried out in accordance with our quality requirements	96% carried out in accordance with our quality requirements	**Quality of meter installations** 100% of our meter installations must be carried out in accordance with our quality requirements
Facilitate the energy transition See also page 23	**Customers with insight into energy saving potential**[1] Our initiatives provide 50% of our customers with full insight into their energy saving potential	44% Our energy saving initiatives provided 44% of our customers with full insight into their energy saving potential at the end of 2011	**Customers with insight into energy saving potential** At the end of 2012, 49% of our customers have full insight into their energy saving potential

Society	Objectives 2011	Results 2011	Objectives 2012
Socially responsible operations with minimal use of natural resources and emissions Long-term objectives: Climate-neutral operations in 2015. In 2016, at least 80% of our procurement is socially responsible See also page 32	**CO_2 emissions from own operations** We are aiming for CO_2 emissions in 2011 of 832 ktonnes	836 Our CO_2 emissions amounted to 836 ktonnes	**CO_2 emissions from own operations** CO_2 emissions amount to a maximum of 820 ktonnes
	Socially Responsible Procurement[1] Contribute to sustainability with at least 30% socially responsible procurement	30% 30% of our procurement was sustainable	**Socially Responsible Procurement** At least 40% of our procurement is socially responsible

1 Concerns Liander.

	Realisation of National Connection Register[1] To help our customers quickly switch energy suppliers, enter our customer data in the National Connection Register (C-AR)	In September 2011 Liander became the first network operator to register its current and historical connection data in the National Connection Register	
We are a committed network operator with an eye for the more vulnerable members of society Long-term objectives: Expansion of programme to 100 people at a disadvantage on the labour market in 2015 See also page 37	**Employees at a disadvantage on the labour market** Offer work to 70 people at a disadvantage on the labour market	74 We offered work to 74 people at a disadvantage on the labour market	**Employees at a disadvantage on the labour market** Offer work to 75 people at a disadvantage on the labour market

Employees	Objectives 2011	Results 2011	Objectives 2012
Modern employment practices lead to high employee satisfaction and diversity within our organisation Long-term objectives: A minimum score of 8.0 in the employee survey over a longer period See also page 42	**Employee survey score** Employee satisfaction was reflected by a good score (8.0) in the employee survey	8.3 Employees gave Alliander an 8.3 in the annual employee survey	**Employee survey score** Employee survey score of at least 8.0
	Employee absenteeism A working environment where employees can work enjoyably and safely leads to an absenteeism percentage of no higher than 4%	4.1% Absenteeism in 2011 amounted to 4.1% (2010: 3.9%)	**Employee absenteeism** Maximum absenteeism percentage of 4%
	Women in leadership positions Alliander is working on the culture in top positions. At least 18% of our management is female	20% The percentage of women in leadership positions stood at 20% at the end of 2011, thus already achieving the ambition for 2015	**Women in leadership positions** At least 20% of all leadership positions are filled by a woman

Shareholders and lenders	Objectives 2011	Results 2011	Objectives 2012
Offer the right balance between protection for providers of (debt) capital and shareholder returns Long-term objectives: Continuously outperform the sector in terms of costs and operational excellence (services, reliability of supply) Solid results, compatible with the regulated permitted profit See also page 52	**Operate within financial policy** Alliander enforces compliance with the Alliander financial policy and achieves solid results, compatible with the regulated permitted return	Alliander operates within the financial policy parameters	**Operate within financial policy** Enforce compliance with financial policy
	FFO/Net debt Norm: > 20%	34.1% FFO/ Net debt	
	Interest cover Norm: > 3.5	5.8 Interest cover	
	Net debt/(net debt + equity) Norm: < 60%	37.0% Net debt/ (net debt + equity)	
	Shareholders' equity/(as a percentage of total assets less deferred income) Norm: > 30%	47.5% Shareholders' equity/(as a percentage of total assets less deferred income)	
	Retention of solid rating Maintain solid A rating profile	Upgrade S&P rating to A+/A-1/positive outlook Moody's rating unchanged at Aa3/P-1/stable outlook	**Retain solid rating** Maintain solid A rating profile

1 Concerns Liander.

from evolution to revolution

Solar panels, wind turbines and heat pumps. The energy landscape is experiencing a radical transformation. Alliander is responding by creating smart energy networks. This means we can keep track of central and decentralised energy flows. By investing in our network now, we are paving the way to a responsible energy future.

smart meter

Each household will be equipped with a smart meter, giving you insight into your energy consumption… and potential energy savings!

smart grid

Alliander is using computers, software and sensors to create an intelligent electricity and gas network. We manage central and local energy flows. And if you have any solar energy ‘left over’, we’ll transfer it to the neighbours.

generate your own energy?

You can generate your own energy with sun and wind. This saves money and is good for the environment. A smart energy network gives Alliander more control over dynamic energy flows.

the energy stick

Is your energy consumption higher than last month? You'll know immediately with the Energy Stick. Liander customers temporarily receive this USB stick with the smart meter.

Share your views

on your role in the energy revolution, and ours. We are moving from central to decentralised energy, and inviting everyone to be an energy entrepreneur.

About the picture: Households form a large part of our customer base. These are customers who want to use energy responsibly and reduce their consumption. The household shown here is producing and using energy. Together we are working on a sustainable future.

customers

Every day, millions of customers enjoy our services. Households, businesses and public authorities expect ready access to electricity and gas at all times. To guarantee our customers the best service, we are continuously working on a reliable and safe network as well as sustainable initiatives.

Management variables

101% Customer satisfaction consumer market compared to a benchmark of Dutch network operators

107% Customer satisfaction business market compared to a benchmark of Dutch network operators

20.0 Electricity outage duration in minutes

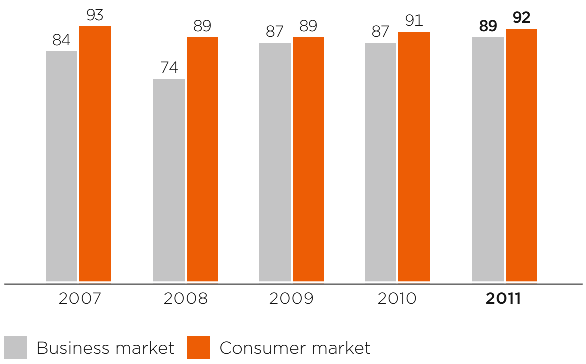
28 Postcode areas with more than five interruptions in 2011

29 Number of substations equipped with SASensors

96% Percentage of meter installations in accordance with our quality requirements

44% Percentage of customers with full insight into energy saving potential

Customer satisfaction trend[1,2] in percentages
Percentage of satisfied customers



1 Liander customer satisfaction levels (measurements in fourth quarter).
2 Business market: Electricity capacity connections greater than 3x80 Ampere and/or gas consumption above 170,000 m^3/year. Consumer market: Electricity capacity connections up to 3x80 Ampere and gas consumption up to 170,000 m^3/year.

Service

Customer satisfaction

An important measure of the success of our services is customer satisfaction. General customer satisfaction with Liander remains high. In 2011, Liander worked on further improvements, including an accessible complaints process and effective communication with customers in the event of power interruptions. We are constantly looking for ways to raise our services to a higher level.

Access to energy

Energy is a basic necessity of life. Connecting our customers to the energy supply is therefore a high priority for Alliander.

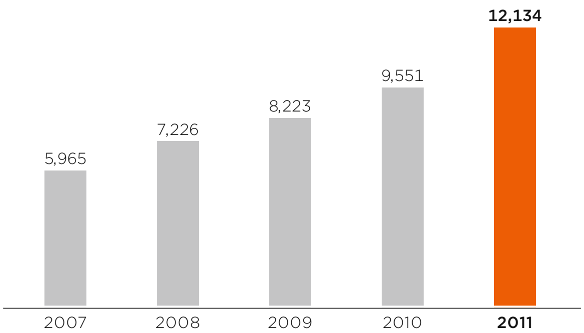
Customers choose their own energy supplier and want to be able to switch suppliers quickly whenever they want. This ability to switch is supported by the National Connections Register (C-AR), a joint initiative of the regional network operators. This central external register contains the relevant data and characteristics of all connections in the Netherlands. This helps network operators to work efficiently and save costs. In September 2011, Liander became the first network operator to enter all its current and historical connection data in the C-AR.

Liander gives customers advance warning if their energy supplier is intending to end their energy supply contract. We advise them to immediately look for a new supplier to avoid disconnection. Liander considers it a social responsibility not to disconnect customers when the temperature is below zero. This applies both in the case of payment arrears to Liander and when an energy supplier terminates the contract during a period of cold weather. To avoid (permanent) payment arrears or disconnection, we advise customers to seek debt assistance. We see a

careful invoice collection and disconnection policy as part of our social responsibility. In addition, customers who are able to present a medical certificate are not disconnected by Liander.

Despite all these precautions, the network operators Liander and Endinet were forced to disconnect 12,000 customers from power and/or gas in 2011. The number of disconnections in 2010 was 9,500. The increase is partly due to postponed disconnections due to the cold weather at the end of 2010, an accelerated disconnection process pursuant to the Information Code of the Netherlands Competition Authority (NMa), and more rigorous enforcement of the disconnection policy for vacant properties.

Number of disconnections[1]



1 The number of disconnections by Liander (figures to the end of 2009 exclude Endinet because of acquisition in 2010) relates to the number of properties disconnected as a result of, for example, end of supply, payment arrears or fraud.

Complaints

Liander requests proactive feedback from customers in order to optimise the complaints handling process and prevent complaints. This approach led to an increase in the number of complaints in 2011. These complaints mainly concerned obligatory meter readings, interruptions or faulty meters.

Reliability

Alliander aims to guarantee energy at all times and our employees work hard every day to ensure a reliable and safe network. By improving internal cooperation, we can optimise our services to customers, work more efficiently and save costs.

Interruptions

Alliander wants to avoid and resolve interruptions wherever possible. A power interruption is extremely inconvenient for our customers and costs society money. In the case of gas interruptions, safety is a key issue. In 2011, Liander also entered into an online dialogue with dozens of customers to discuss communication in the case of interruptions. Customers stressed the importance of being kept informed of the cause, scale and location of the interruption, as well as the expected repair time.

Electricity

In 2011, Liander managed to reverse the rising trend in the outage duration. The annual outage duration of the electricity network decreased from 31.2 to 20.0 minutes, the average outage duration fell by 15%, and the number of interruptions declined by 8%. The outage duration at network operator Endinet rose from 12.0 to 35.2 minutes. This increase was mainly caused by two major interruptions as a result of an excavation incident and a fault in a transport cable. Due to the limited size of the network, the impact of interruptions on network operator Endinet's outage duration is greater. On average, the joint outage duration in the service area of Liander and Endinet was 20.6 minutes. In 2011, 28 postcode areas were affected by more than five interruptions. Our aim was 25 areas or less.

Technical initiatives to increase the reliability of the electricity network included the following:

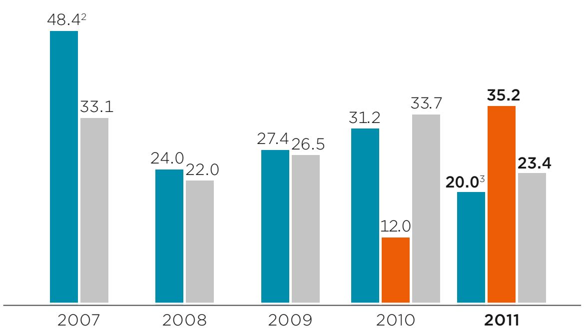
Initiative	Explanation
Roll-out of GSM detectors	Liander is installing extra GSM disruption detectors at strategic places in the network for faster localisation of outages.
Optimisation of low-voltage process	We adapted the process for deploying disruption repair technicians and increased the quality of registration.
Optimisation of medium-voltage process	A uniform disruption response process was introduced and we adjusted the process for using GSM disruption detectors.
Excavation damage prevention at high-risk network sections	Liander has introduced a new excavation damage prevention process and has appointed a prevention team, notably for large-scale projects including the construction of fibreglass networks and reconstructions by municipalities.
Security settings in order	The security settings of components in the network have been recalculated, checked and – where necessary – adjusted.
Removal of weak coupling sleeves in high-risk network sections	Weak connections between cable ends are a well-known source of disruptions and were removed from high-risk network sections.
Target-driven approach by district teams	Weekly meetings between (disruption repair) parties in the chain to check performance against the most important performance indicators.

Gas

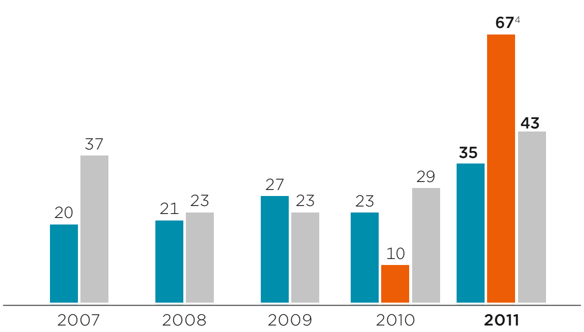
The supply of gas through our network is highly reliable. The annual gas outage duration in 2011 was 35 seconds for Liander customers versus 23 seconds in 2010. Alongside a major interruption in Rozendaal, the outage duration increased due to interruptions caused by operating faults, among other things. In 2012, Liander will start up a programme to further improve the safety, quality and capacity of the gas network.

The annual gas outage duration increased to 67 seconds for customers of network operator Endinet. This was mainly caused by the consequences of a severe storm on 29 June 2011 in Vught.

Annual electricity outage duration in minutes[1]
Average outage duration per customer



Annual gas outage duration in seconds[1]
Average outage duration per customer



1 Annual outage duration (figures to the end of 2009 exclude Endinet because of acquisition in 2010), defined as average outage duration per customer (SAIDI = System Average Interruption Duration Index).
2 The figure for 2007 excluding the interruption in Bommelerwaard amounted to 23.5 minutes for Liander; adjusted average for the Netherlands was 23.8 minutes.
3 At the publication of the financial results 2011, Alliander reported a provisional number of 20.4 minutes.
4 A total of 57 seconds of the gas outage duration for Endinet was caused by a heavy storm in Vught on 29 June 2011. Without this interruption, the outage duration in 2011 would have been 10 seconds.

Quality

The quality of our networks is good and the reliability ranks among the best in the world. To maintain and, where necessary, improve the quality of our networks, the following initiatives were taken:

Voltage quality

The expected rise in the use of solar panels, micro-CHP boilers, heat pumps, electric cars and LED lighting has implications for the voltage quality of energy. Customers will notice that this sometimes affects the performance of their electrical equipment and appliances. To gain more insight into the voltage and power quality, we are installing smart meters, adding intelligence to medium-voltage units and equipping substations with sensors.

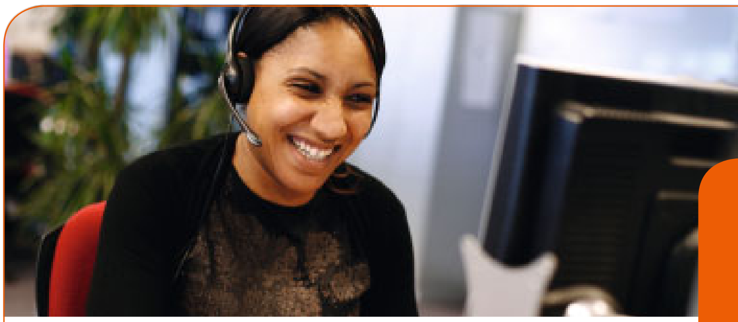
Our network operators measure the voltage quality on a random sampling basis and check the outcomes against the voltage norm. Netbeheer Nederland analyses the data and reports to the network operators and the Office of Energy Regulation. Our network operators also measure the impact of decentralised generation on the quality of the voltage.

Installation of energy meters

The installation of energy meters is precision work. Speed, quality and safety are essential. In 2011, Alliander investigated quality and safety during the installation of meters. In 2011, 96% of our meter installations were carried out in accordance with our quality requirements. Our target was 100%. We tightened up the checks, set up working groups with contractors and made joint safety arrangements. Identified mistakes were immediately rectified and earlier installations were checked retrospectively. In 2012, the quality checks will be stepped up. Contractors will be involved more intensively in the development and implementation of the safety policy. Liander is also launching a sanctions policy to serve as a formal warning in cases of negligence.

Replacement of brittle gas pipes

Grey cast iron is one of the materials we want to replace in a phased risk-based process. After many years of use, the material has sometimes proved to be brittle and insufficiently flexible. Together with our regulator, SSM (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 prepared for the entire service area for the coming thirty years, while a detailed plan has been made for the coming five years. Liander discusses the plans and timelines with the municipalities in order to combine efforts and minimise inconvenience where possible. In 2011, 159 kilometres of brittle gas pipes were replaced.



Here are some examples of initiatives we took in 2011 to further improve our services:

Communication about interruptions

Liander informs customers of interruptions in person and via text message. In 2011, a total of about 39,000 customers used the text messaging service. During the year Liander also began communicating about interruptions via Twitter.

Open house

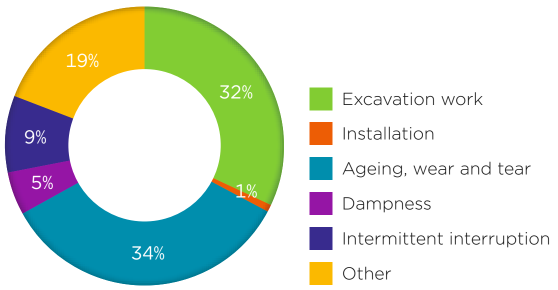
Surveys show that consumers are not very familiar with Liander and are not aware of what we can do for them. We see the introduction of the smart meter as an ideal occasion to inform our customers of the various kinds of services and assistance we can provide. Liander therefore launched a name recognition campaign 'Liander Holds Open House' in September 2011.

Digital billing

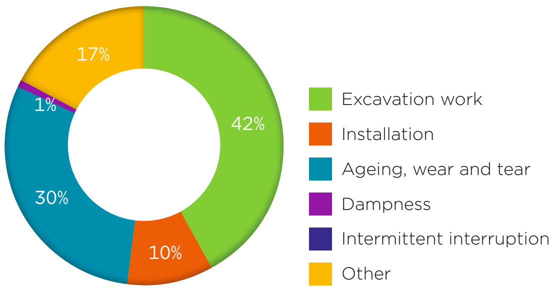
Large business customers prefer to receive digital bills. In 2011, Liander started offering a digital billing service to this group, which can now receive their total monthly bill by email, with consumption broken down by individual connection point. Digital billing is convenient, better for the environment and saves costs. In 2012, we want to offer the digital billing service to other customers as well.

Causes of electricity outage duration 2011

Liander

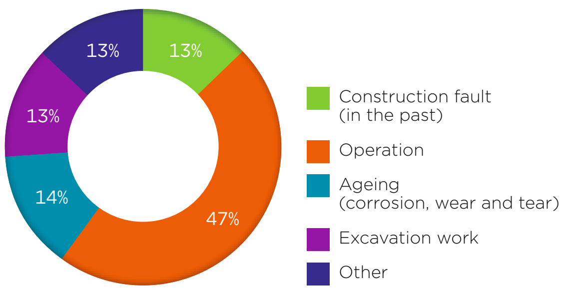


Endinet

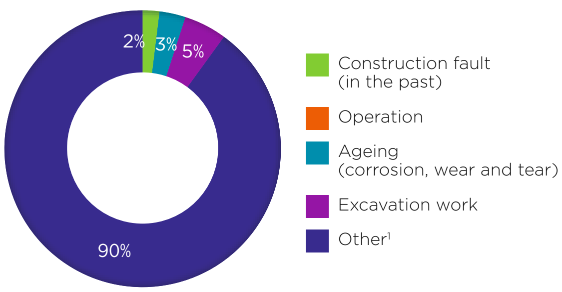


Causes of gas outage duration 2011

Liander



Endinet



1 85% of the outage duration for Endinet was attributable to a heavy storm in Vught on 29 June 2011.

Replacement of brittle gas pipes

	Unit	2011	2010
Replace brittle gas mains[1]	kilometres	159	154

1 The definition of brittle gas pipes, as used by SSM, includes grey cast-iron and asbestos cement. The total length of 'brittle pipes' in Alliander's service area at the end of 2011 was 2,824 km.

Safety

The safety of our energy networks is a top priority. Our employees work on safety every day. In addition, Alliander 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 www.energieveilig.nl. This website is a joint initiative of all network operators, including Liander and Endinet, who are united in Netbeheer Nederland.

In order to respond adequately to incidents and calamities, Alliander has a specially trained crisis organisation. This crisis organisation is responsible for the rapid mobilisation of all relevant business units and the centralised coordination of the response actions.

The following improvement actions were taken in 2011 to make our energy networks even safer:

Gas leak search and repair

Liander has started an intensive gas leak search programme in order to reduce the number of leaks. In 2011, we stepped up the frequency of our gas leak investigations. As a result, we identified and repaired more leaks. Frequent checks make the gas network safer and eventually reduce the number of leaks. This also has a positive effect on our methane emissions and, hence, on our CO_2 emissions (equivalents).

Safety of lampposts in Amsterdam

In 2010, the Office of Energy Regulation imposed a binding directive on Liander. According to this directive, the current is not broken or not broken quickly enough in the event of short circuits at certain locations in Amsterdam. Liander is measuring the voltage of about 100,000 lampposts in Amsterdam and making any changes necessary to improve safety. The work is proceeding according to plan and will be completed by no later than 2013.

Asbestos

In the past, asbestos-containing materials were used in our infrastructure (pipes, installations and buildings). A preliminary investigation was carried out to identify any areas suspected of containing asbestos. In 2011, the first pilots were started up to make an inventory of these areas and, where necessary, to remove the asbestos. As ever, the safety of our employees is paramount in our asbestos removal policy.

Sanctions

In 2011, three sanctions were imposed on Alliander by a regulator for failure to report excavation work.

Sanctions – regulation

By category	Unit	2011	2010
Financial sanctions	number	3	2
Size of financial sanctions	€ thousand	60	40
Other sanctions	number	-	1

Sustainability

Alongside a reliable, safe and affordable network, Alliander is also committed to sustainability. More and more customers are keen to generate their own clean energy from renewable sources such as wind, sun or waste.

Renewable energy wishes

To gain insight into our customers' renewable energy wishes, we maintain various types of dialogue with them, including regular customer panel meetings. Alliander plays a facilitating role in helping businesses and consumers resolve their (renewable) energy issues and needs. Thanks to our savings initiatives, 44% of our customers had full insight into their potential savings at the end of 2011. In 2011 we introduced:

Energy in Focus

To provide municipalities with insight into their energy consumption, the network operators Liander and Enexis launched the new 'Energy in Focus' service in 2011. This online web service provides detailed visual insight into the gas and electricity consumption at municipal and neighbourhood level. With this information we help municipalities to achieve their climate and energy targets.

E-Atlas for housing associations

The E-Atlas provides housing associations with insight into the energy consumption in their homes which Liander serves as network operator. The E-Atlas also allows housing associations to track the effect of their climate policy.

Sustainable Office Competition: 'Act Green'

In 2011, Liander held an online office competition under the name GroeneDaad.nl. Liander organised the competition to show employees and employers how even small efforts can make offices a lot greener and more sustainable. In 2011, 76 offices carried out more than

Gas explosion in Arnhem

In November 2011, there was a gas explosion in a home in Arnhem. Two residents were injured, one seriously. Alliander deeply regrets this. Following the incident, Alliander remained involved with the local community. As a precautionary measure, all other homes in the neighbourhood were checked for gas smells and leaks. To establish the cause of the explosion, the regulator SSM (State Supervision of Mines) and KIWA Gastec are carrying out an investigation on behalf of Netbeheer Nederland. Liander is also conducting an internal inquiry into the circumstances surrounding the gas explosion. While awaiting the definitive reports Alliander has prioritised all its existing agreements and procedures surrounding safety in its communications with its employees. Safety is and will remain the basis from which we operate.

Safety and service come first when interruptions occur

On 12 January 2011, 600 households in the municipality of Rozendaal were left half a day without gas. During work on a gas installation outside Rozendaal, the pressure in the gas network suddenly dropped. We liaised closely with the municipal authorities about this interruption. Technicians repaired the gas supply at affected customers. For safety reasons, the main gas tap was shut in each household before the gas pressure could be turned back on. Liander offered the residents assistance in reactivating their boilers.

3,500 'green actions'. In 2012, we will promote 'Mapping your Office', a product that provides insight into the energy consumption at office buildings in order to realise energy savings.

Education for children

Energy awareness starts at an early age. In 2011, the animated characters Bonny and Blitz helped groups of 9- to 10-year-old schoolchildren discover where our electricity and gas comes from every day, how that will change in the future, what clean energy is and how we can use energy responsibly. In 2011, we taught 61 classes at 36 schools. The intention is to widen the scope of the campaign to the Endinet service area in 2012.

Electric transport

Electric driving causes no local emissions of CO_2 and fine particles, and is more energy-efficient than driving on fossil fuels. Battery technology is advancing rapidly, so a breakthrough for electric transport may be imminent.

Liander and Endinet are working together with other network operators in the Stichting e-laad to facilitate recharging points for electric cars in the Netherlands. The 1,000th recharging point was installed in December 2011. There are more than 300 public recharging points in the regions where Alliander is active. There are also 53 recharging points near Alliander offices.
In 2011, Liander signed a covenant for the installation of fast-recharging points, where electric cars can be recharged within half an hour. The fast-recharging points are located along or near motorways in almost every province at such facilities as petrol stations and roadside restaurants. Alliander is also working on policy for public recharging points.

Early in January 2012, Alliander took a share in The New Motion, a company that develops recharging products for electric cars. By taking a share in The New Motion, we aim to support the technological development of products and services for electric transport. An additional advantage is that this lets us test the effect of electric transport on our electricity networks. The New Motion is also working on services that provide these customers with insight into their own recharging behaviour.

Sustainable, intelligent networks

Smart grids are necessary to facilitate (sustainable) developments. These networks are digitalised and can be controlled remotely. Good telecommunication is essential in order to operate the smart grids effectively. To achieve smart grids, we are digitalising the substations and medium-voltage networks and are installing smart meters, while Liander is adjusting the telecommunications network.

Smart meter

From 2012, households in the Netherlands will be offered a new type of energy meter: the smart meter. The smart meter is a digital energy meter which shows the meter readings, just like conventional meters. But it can also help consumers gain better insight into their own energy consumption. Smart meters are an important building block for the intelligent networks of the future.

In February 2011, the Upper House approved the introduction of the smart meter in the Netherlands. Alliander is working with sector peers on the standardisation, normalisation, communication and procurement of the smart meter.

From 1 January 2012, all network operators, including Liander and Endinet, will start offering smart meters. This mainly concerns the installation of smart meters in new-build and renovated properties as well as scheduled replacements of old meters. From 2012, customers can also voluntarily request a smart meter for their homes ('priority installations'). In 2011, new-build, renovation and scheduled replacement customers were informed of the advantages of the smart meter.

Customers can access their own digital meter readings from the smart meter in their home. And network operators can remotely read the meter six times a year, provided they have the customer's permission. If the customer uses certain energy saving services, network operators can read the meter more often at the customer's express request. Customers are also free to have the automated periodic meter readings deactivated or refuse installation of the meter.

Liander handles the personal data of customers with great care. In February 2011, the network operator received the 'Privacy Audit Proof' Quality Label from the professional organisations NIVRA and NOREA. This certificate shows that customers can trust Liander to process the smart meter readings in our business processes and systems in accordance with the Personal Data Protection Act (Wbp). The Wbp stipulates how organisations must handle the personal details of their customers. For instance, every customer must be able to view and correct their data. Organisations must also let their customers know what they do with these data. Personal data are only allowed to be collected and processed if there is a good reason for this or if the customer gives permission.

Handy applications on the smart meter enable customers to track their energy consumption in real time. Liander is working with other parties in the sector and with companies that develop relevant applications. One of these applications is ‘The Energy Stick’, which Liander is introducing in a pilot. This is a USB stick which, combined with the smart meter, provides insight into the customer’s actual energy consumption. Since September 2011, Liander and the Vereniging Eigen Huis (Association of Homeowners) have been carrying out a user test in which 45 homeowners try out three different applications of the smart meter during a one-year trial. The most important initial conclusion is that people are largely satisfied with the smart meter, though it is not yet sufficiently clear to the participants how the smart meter can help them save energy.

Telecommunications network

Telecommunication is becoming increasingly integral to our primary process: the distribution of electricity and gas. The network operator Liander therefore sees telecommunication as a third network. Via Liander’s closed telecommunications network, operational information on, for example, network maintenance, interruptions and energy consumption is transferred to the networks.

The introduction of intelligent networks is giving rise to a great deal of additional data. In 2011, a plan was drafted to use fibreglass to open up medium-voltage stations and substations to the telecommunications network. A four-year programme for the roll-out of this fibreglass network will start in 2012.

The information systems must be kept in good order and progressively improved to ensure proper data processing. In 2011, the Enterprise Asset Management (EAM) programme was started to enable an integrated approach to business processes and IT systems surrounding the enterprise assets. In 2011, we worked to improve both the data and data management processes. Risks were also identified and assessed. The results were translated into a five-year data improvement plan.

Substations

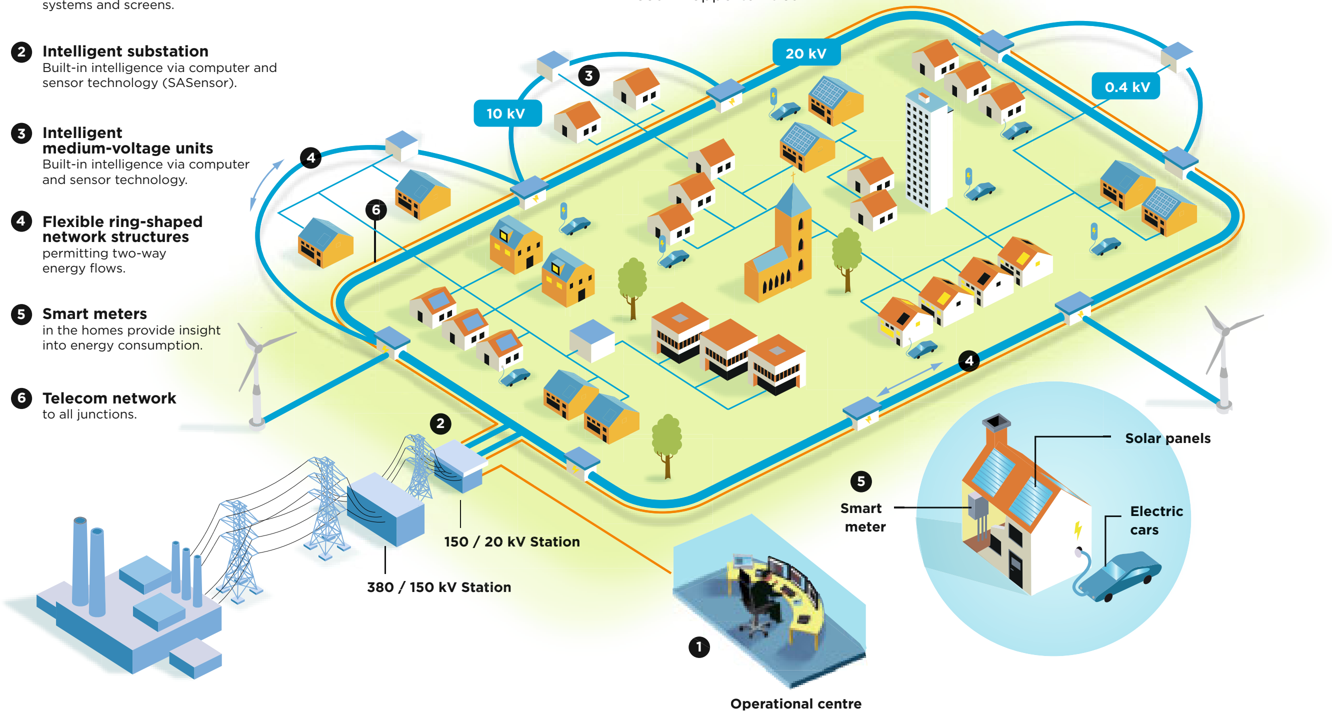
We are installing computers, software and sensors (SASensors) in the substations where electricity is transformed from high-voltages to medium-voltages. Adding sensor technology to the network will enable us to control (local) energy flows with greater precision in the future. This opens the way for remote operation, localisation of interruptions and automated repairs. Digitalisation of the substations should lead to a significant reduction in costs and outage duration. In February 2011, we started with the installation of sensor technology at important junctions in the

The digital network

The digital electricity network consists of the following components:

1. **Digitalised operations**
   monitor the network 24/7 with electronic systems and screens.
2. **Intelligent substation**
   Built-in intelligence via computer and sensor technology (SASensor).
3. **Intelligent medium-voltage units**
   Built-in intelligence via computer and sensor technology.
4. **Flexible ring-shaped network structures**
   permitting two-way energy flows.
5. **Smart meters**
   in the homes provide insight into energy consumption.
6. **Telecom network**
   to all junctions.

Alliander is building the digital electricity network to enable better energy management and control. And to improve customer service in terms, for example, of fewer and shorter power outages and improved energy feed-in opportunities.



electricity network. The installation work will continue until 2018 and cost about € 15 million annually. In 2011, the first 29 of the roughly 300 substations were equipped with SASensors. The sensor technology was developed on behalf of Liander by Locamation and Liandon. Alliander took a share of 14% in Locamation early in 2011.

Medium-voltage networks

Medium-voltage networks are also being digitalised. In order to be ready for decentralised generation, heat pumps and electric transport, among other things, we have developed a new concept as an alternative for 50 kV networks. We are phasing out our 50 kV and 10 kV networks and replacing them with 20 kV networks to increase the capacity and flexibility of our medium-voltage networks. Here, too, we are implementing technology and IT so that the networks can be monitored and operated remotely.

Partnerships

We are facilitating the energy transition together with partners. We gather and use knowledge to improve the services and jointly create innovations. Alliander is pursuing energy saving in collaboration with various parties, including:

The municipality of Amsterdam via 'Amsterdam Smart City'

A unique partnership between residents, businesses and government bodies who are seeking to make Amsterdam the most sustainable city in Europe. Various combinations of smart meters and energy management systems are tested in this project. Experience is also gained with the possible impact of these systems on consumer behaviour, both in terms of consumption and capacity. Since the partnership's inception in 2009, a total of about 20 'smart' projects have been started up in cooperation with more than 80 partners in the areas of working, housing, transport and public space. Projects are tested locally and the most effective initiatives are carried out on a large scale. In 2011, Amsterdam Smart City became the first Dutch project to win the European City Star Award 2011 for its efforts to promote renewable energy.

The municipality of Texel in the 'Smart and Self-Sufficient Texel' project

The municipality of Texel is seeking to be entirely energy self-sufficient by 2020 by means of renewable energy. Liander is facilitating the municipality in this endeavour and in 2011, Liander installed the first smart meters on Texel. The meters are important for the smart grid that is being constructed on the island. They also help keep track of the energy consumption. Liander is offering smart meters in all homes on Texel in 2012.

The government in the 'Block by Block' programme

In 2011, Alliander committed to the 'Block by Block' programme, the energy saving initiative of the Dutch government. This programme is aimed at achieving energy savings of about 30% in homes. Liander is participating in projects to make thousands of homes more energy-efficient.

Network capacity

Our electricity and gas network must meet the energy requirements of our customers, both now and in the future. We monitor and assess the required and available capacity of the networks on an ongoing basis. In 2011, Liander continued its 'proactive network planning' initiative. This helps us to plan our capacity further ahead and anticipate future developments at an earlier stage. In addition, we draw up network structure plans, outlining how the network structure will develop in the coming 20 years.

No significant capacity bottlenecks occurred in 2011 and no significant bottlenecks are foreseen for the coming period. In order to guarantee future capacity, we will invest in the coming years in further network expansions, paying close attention to specific developments.

Heat pumps

Electric heat pumps require a strengthening of the distribution network at neighbourhood level. Alliander is informed at an early stage of plans to install heat pumps, so we can adapt the network structure to the specific situation in time.

Decentralised generation

The clustering of wind farms and the power capacity of combined heat power stations have an impact on the network. The same applies to small-scale energy generation via e.g. micro-CHP boilers and solar panels. We are responding to these developments by strengthening our networks as well as adding new substations and additional power transformers.
In 2011, Liander made a special contribution to the upgrading of the Nes wind farm near Marken, including the construction of a 13-kilometre connection to boost the wind turbine capacity.

Quality of processes

Assuring the quality, capacity and safety of the networks is our principal responsibility. Network operators, 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 Agreement (NTA 8120). The NTA 8120 sets out the requirements that a safety, quality and capacity management system must meet in order to prevent irregularities, interruptions and incidents in all phases of the life cycle of electricity and gas networks. Managing the consequences also falls within the standard. In 2011, Liander obtained the NTA 8120 certificate for its asset management system.

“Alliander focuses on minimising interruptions and future-proof sustainable energy networks.”

Every two years, network operators Liander and Endinet account to the regulators for their actions in our Quality and Capacity Documents (KCDs) for electricity and gas. These KCDs also contain the principal risks as well as the planned investments and maintenance of the networks for the coming years. Up-to-date KCDs were published at the end of 2011. Both network operators are thus in compliance with the requirements for a safety, quality and capacity management system for electricity and gas network management.

Looking ahead to 2012

Alliander wants to provide customers with a reliable, safe and affordable supply of energy. To achieve this, we ensure that the energy networks are well-maintained and renewed or expanded whenever and wherever necessary. Alliander focuses on minimising interruptions and future-proof sustainable energy networks.

Reliability of supply

Reducing the outage duration of the network also has priority in 2012. The network operators want to analyse interruptions even more effectively and resolve interruptions quickly and successfully. In 2012, we are aiming to maintain the low outage duration.

Adjustment of tariffs

The network operators Liander and Endinet will increase their tariffs in 2012. This will raise the total energy bill of an average household by between € 2.00 and € 2.50 per month. The increase is necessary to continue investing in reliable and safe energy networks. The tariff increases of Liander and Endinet fall within the maximum permitted increase as approved by the Netherlands Competition Authority (NMa).

Supplier model

The supplier model is set to be introduced in 2013. The guiding principle is that consumers will have a single point of contact for energy, namely the supplier. The energy supplier passes the costs of regional transport on to the consumer. The energy supplier will also be responsible for determining customer consumption. This is currently done by the network operator.

Alliander’s preparations for the supplier model are continuing in 2012. Alongside internal changes in processes and systems, we must be able to provide the correct data to energy suppliers at any time. To increase its uniformity and transparency, Alliander and other network operators will start using a single central information system which allows information to be exchanged with energy suppliers.

Investments in the network

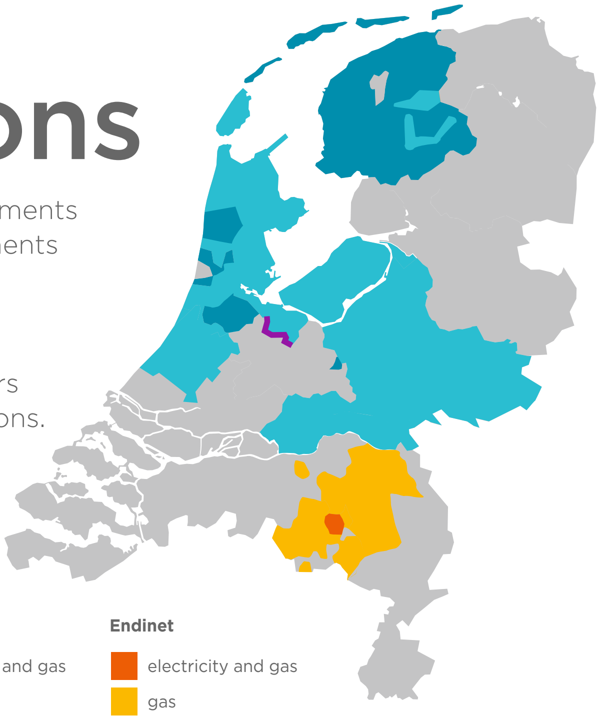
It is difficult to predict the exact shape of the energy transition and the pace of change. This poses a dilemma for the network operators. The replacement or construction of a network requires very careful consideration and planning.

In the coming years, Alliander will invest more in maintenance, replacements and expansions than in the past years. On average, the gross investments, which will mainly involve the replacement and expansion of the networks, will amount to € 400 to € 450 million. In the coming years, our investments will include the installation of sensors in the network and the further digitalisation of the operations. In addition, Liander will launch a pilot for flexible public lighting with a view to enabling municipalities to make time- and location-specific energy savings. Our long-term investments depend partly on the extent and speed with which decentralised generation and feed-in to the decentralised network are adopted.

One of the specific investment projects concerns the phased roll-out of smart meters. In 2012, we will start the statutory small-scale roll-out of smart gas and electricity meters. This means that the network operators Liander and Endinet will, at minimum, roll-out the smart meters in all the categories that are prescribed by law. According to the current outlook, the investments in smart meters for Alliander will amount to € 60 to 100 million per year between 2013 and 2020.

2011 in the regions

In the 2011 annual plan, we made a forecast per region of investments in our networks. This report gives a breakdown of the achievements for each region. In 2011, we focused our investments on the replacement and expansion of our existing networks in order to improve them and to meet the growing demand for energy. Alliander also invested in expanding the number of smart meters in new and scheduled replacement housing projects in the regions.



noord-holland[1]

910,000 customers

23.2 minutes of electricity outage duration

Electricity: In order to be able to meet future energy requirements and connect new customers, extra capacity was created in the medium-voltage networks in the province of Noord-Holland. In Haarlem, less safe substations in the city centre were replaced. Liander carried out this replacement work in close cooperation with the municipality of Haarlem in order to resolve any bottlenecks. In Heerhugowaard, work began on the construction of homes in the new residential area of de Draai in 2011, with Liander laying a 20 kV network. An estimate was made of the cables and pipelines that needed replacing as part of the dyke reinforcement works between Hoorn and Edam.

Gas: Liander replaced approximately 31 kilometres of brittle materials (including grey cast iron), some 20 kilometres in Haarlem. In several places, it used the innovative method of 'relining' to keep disruption to a minimum. Liander consulted closely with third parties throughout the region concerning this replacement. In Haarlem, a multi-year programme for replacing distribution stations is also under way. A total of 15 gas distribution stations were replaced in 2011.

1 Excluding Amsterdam.

zuid-holland

270,000 customers

18.1 minutes of electricity outage duration

Electricity : In Leiden, a start was made on the expansion of the medium-voltage network at the Bio Science Park and near the city's Central Station. This will make it possible to connect new customers throughout the region. At the same time, it will create capacity for developments in the region over the coming years.

Gas: Liander replaced 18 kilometres of brittle materials (grey cast iron and asbestos cement) in the Zuid-Holland region. During the replacement process, we sought to combine efforts with third parties. Four district stations were replaced in order to guarantee a safe and uninterrupted supply.

amsterdam

432,000 customers

19.2 minutes of electricity outage duration

Electricity: A number of planned projects were postponed to 2012, which caused the cost of investments in Amsterdam to be lower than indicated in the Alliander annual plan. In order to provide new residential areas and industrial facilities with electricity, a series of new electricity networks were realised in Amsterdam, Diemen and Landsmeer. In 2011, an innovation project was launched to convert part of the existing medium-voltage network in Amsterdam Osdorp into an intelligent medium-voltage network. Some 12,000 steel meter boards were replaced by standardised meter boards to enable the installation of smart meters. These efforts were combined as far as possible with the replacement of gas pipelines. Meanwhile, approximately 60,000 lampposts in Amsterdam were checked in the context of a binding directive.

Gas: In order to provide new residential areas and industrial projects with energy, new gas networks were installed in Amsterdam, Diemen and Landsmeer. Liander replaced 29 kilometres of brittle material, including grey cast iron. 19 district and customer stations were replaced due to ageing and the non-availability of replacement components. In 2011, more new connections were realised than planned, leading to higher investments.

gelderland

902,000 customers

19.9 minutes of electricity outage duration

Electricity: To reduce the impact on the environment and facilitate the management of an orderly infrastructure, Liander proactively removed a number of abandoned cables and pipelines in 2011. It also launched several projects to adapt the electricity network to future energy needs and to further reduce outage durations. Examples included expanding capacity for the Roodwilgen industrial site and strengthening 10 kV connections in the municipalities of Zutphen, Doetinchem and Wisch. A new switching station was built to meet the energy requirements of the station at Arnhem. The proposed energy park in Lochem was not realised in 2011.

Gas: Liander replaced 66 kilometres of brittle material (including grey cast iron) in the Gelderland region. To meet existing quality and safety requirements, it replaced a number of gas receiving stations in the Gelderland region. Meanwhile, a gas receiving station in Arnhem was successfully relocated. And new measuring equipment was also introduced to make inspection results more accurate, detailed and objective.

flevoland

144,000 customers

19.7 minutes of electricity outage duration

Electricity: A number of planned projects were postponed to 2012, which caused the level of investments in Flevoland to be lower than indicated in the Alliander annual plan. A new switch installation and a 20 kV network were built for a wind farm.

Gas: In the area of gas, too, a number of planned projects were postponed to 2012, which caused the level of investments in Flevoland to be lower than indicated in the Alliander annual plan. To improve continuity and safety, Liander replaced 30 high-pressure connector sets and 8 district stations.

friesland

252,000 customers

14.3 minutes of electricity outage duration

Electricity: In 2011, a new 10 kV installation was built, a transformer station was connected and the substation at Herbayum was expanded to 20 kV to ensure a reliable energy supply in Friesland. The reliability of the energy supply in Ameland and Terschelling was also improved. In Ureterp, the first customer connection was realised for the Nederlandse Aardolie Maatschappij. In time, this connection will ease pressure on the old switching station at Drachten. Liander also relocated cables in connection with the widening of the provincial highway between Stiens and Hallum. On the IJsselmeer dam, work began on the construction of an electricity connection for the sea locks.

Gas: In 2011, € 0.5 million was invested in expanding and reinforcing gas networks, and € 1.2 million in replacing them. Liander replaced 4 kilometres of brittle material (including grey cast iron).

noord-brabant

416,000 customers

35.2 minutes of electricity outage duration

Electricity: Electricity: In 2011, a district distribution station was expanded to create a main distribution station. Capacity was also increased by splitting two medium-voltage rings and expanding the associated district distribution stations. A district distribution station was also replaced and two major reconstruction projects were carried out on the Mierenakkerweg and the Beemdstraat in Eindhoven. The network at Flight Forum in Eindhoven was also strengthened in response to the growing demand for electricity.

Gas: Endinet replaced 11 kilometres of brittle materials (grey cast iron and asbestos cement) in the low-pressure network in the Noord-Brabant region. Approximately 2,000 steel domestic connections were cleared to make way for the installation of smart meters. In addition, 64 kilometres of PVC pipelines were laid. A 700-metre bottleneck was cleared in Someren.

Investments by region 2011

		Noord-Holland		Amsterdam		Zuid-Holland		Gelderland		Flevoland		Friesland		Noord-Brabant	
		realised	annual plan	realised	annual plan	realised	annual plan	realised	annual plan	realised	annual plan	realised	annual plan	realised	annual plan
Electricity[2]	Expansion	37.1	32.9	14.3	14.0	14.5	16.6	39.3	32.1	6.0	8.8	10.0	6.7	5.0	3.8
	Replacement	4.8	8.2	10.9	17.4	10.0	2.5	13.3	7.4	0.6	1.8	2.1	2.9	2.6	2.5
Gas[2]	Expansion	7.0	7.5	3.7	2.6	2.8	5.4	10.1	8.3	0.7	2.5	0.5	0.3	3.9	3.3
	Replacement	18.1	16.5	29.7	28.8	9.7	10.8	26.9	22.3	0.5	3.8	1.2	0.8	6.5	6.3
Total electricity, gas[1]		**67.0**	**65.1**	**58.6**	**62.8**	**37.0**	**35.3**	**89.6**	**70.1**	**7.8**	**16.9**	**13.8**	**10.7**	**18.0**	**15.9**
Smart meters	Installations	4,367	3,200	15,058	18,200	3,053	4,900	29,954	16,900	1,040	2,400	496	10,000	4,155	6,000

1 This table shows only the investments in regulated electricity and gas networks that are directly attributable to the regions. Non-directly attributable investments (including investments in the high-voltage network) totalled € 79.2 million.

2 In € million.

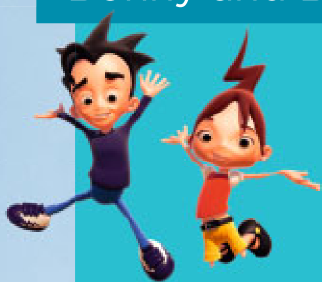
plugwise

Switch off the coffee-maker automatically when the office is closed, and save on energy costs. A smart Plugwise plug will measure the electricity consumption of each appliance.

'act green'

Why not occasionally meet by candlelight and take the stairs a little more often? 'Green acts' are easily integrated into our daily lives. We held an 'Act Green' office competition to encourage companies to make their office environments greener and more sustainable.

Bonny and Blitz



Hey energy hog! Surely you aren't leaving your computer switched on day and night? Cartoon characters Bonny and Blitz teach children aged 9 to 11 how to save energy. They also provide a special checklist so that youngsters can apply this as soon as they get home.

from more knowledge to less consumption

How much energy does your computer consume? Our customers want to be energy efficient, both in terms of the environment and their wallet. Liander gives you insight into your energy consumption, and this increased awareness actively contributes to a new energy balance. New techniques help you and us to find solutions for the future.

energy in focus

Which municipality consumes the most energy? ‘Energy in focus’ gives an online overview of energy consumption by municipality. This frequently results in specific adaptations to reduce energy consumption in rented housing.

Join us

... and consider what you can do to save energy. You can make simple adjustments or apply innovative ideas to reduce your CO_2 emissions... and lower your energy bill.

About the picture: Science Centre NEMO teamed up with Liander to develop the interactive exhibition ‘Smart Power’. Smart Power shows children how to use energy more wisely, both now and in the future.

society

We see it as our responsibility to work towards a sustainable future, not just for today's society but for generations to come. Alliander combines knowledge and experience to build sustainability.

Management variables

836	CO_2 emissions from own operations (ktonnes)
30%	Socially responsible procurement
74	Employees at a disadvantage on the labour market

Our ambitions as a public service provider are an integral part of our corporate strategy and are embedded in Alliander's strategic themes. We have set ourselves three public goals: facilitating the energy transition, guaranteeing socially responsible business operations and supporting social initiatives as a publicly committed network company. Our activities contribute to these three goals.

Chain-based cooperation and stakeholder approach

Sustainable development specifically calls for a pooling of resources. We can achieve more and better results if we work in partnership with customers, suppliers, local authorities and societal organisations. We create or participate in platforms where new connections are being forged, either through our purchasing chains or through social platforms. We also want society to cast a critical eye over us, from the 'outside in', for example as regards the affordability of energy, diversity and remuneration.

In 2011, we concluded a number of new partnerships within the chain and with stakeholders.

e-Decentraal

The development of decentralised energy production has a significant impact on network operators. In addition to raising a technical question (how to feed energy back into the network), it is above all a matter of what kind of relationship we have with our energy-producing customers, what role we can play and the best way to open up our knowledge and expertise. To this end, in 2011 Alliander joined the board of the e-Decentraal association. By working together, sharing knowledge and establishing a joint lobby, e-Decentraal hopes to make progress with decentralised renewable energy initiatives. Participation on the board of e-Decentraal is additional to our involvement with various local initiatives such as Texel Energie, Lochem Energie, Zee-Energie (Zeewolde) and the Renewable Energy and Development Company (DE-on).

Urgenda

The worldwide social challenges are immense. Alliander recognises that governments, companies and consumers must take major steps to improve the situation. In 2011, Alliander therefore formalised its cooperation with Urgenda for a four-year period. Urgenda is an action group for sustainability and innovation which wants to make the Netherlands sustainable more quickly and is forging appropriate links between the private sector, governments, societal organisations and consumers. Alliander brings knowledge to the table and actively contributes to initiatives relating to electric driving, local energy companies and sustainable regional development.

Green Deals

Green Deals are a process by which citizens, the private sector and organisations conclude agreements with the government to get sustainable initiatives off the ground. They focus on specific projects in energy saving, renewable energy, sustainable transport and the sustainable consumption of water and raw materials. In 2011, Alliander and its partners took part in five green deals amongst others relating to green gas and sustainable transport.

MVO Nederland's large business network

Alliander has experience in acting on social responsibility and is always looking for additional partners with which to share knowledge. We are keen to work with other organisations and in 2011, we joined the Dutch CSR Business Network. Alliander has made numerous contributions to conferences on the themes of labour participation and CSR management, both as a source of know-how and as a speaker.

More information about our interaction with stakeholders can be found on page 163 of this annual report.

Facilitating the energy transition

Preparing our network for new, clean energy carriers is an integral part of all our activities. Our initiatives on energy saving, renewable energy and electric transport are described in the chapter on customers.

Corporate social responsibility

Alliander is committed to responsible business operations. As a network company, we are literally connected to society, which is why we invest in reducing CO_2 emissions and in a responsible procurement policy.

CO_2 emissions

Alliander is striving to be climate-neutral by 2015. Since 2010, we have been following the three-step trias energetica approach whereby the first step is to save energy, the second to use renewable energy and the third to consume fossil fuels as efficiently and effectively as possible. In 2011, Alliander decided to prioritise energy saving and sustainable electricity generation in its own energy consumption. Alliander believes that pursuing the sustainable generation of electricity should lead to extra generating capacity in the Netherlands. It is therefore cautious in its use of compensation and guarantee of origin certificates. In 2011, we launched a survey on how Alliander can make its CO_2 emissions greener via sustainable generation within the existing regulatory framework.

To improve the management of CO_2 emission reduction, Alliander has begun a certification procedure for the CO_2 performance ladder. This procedure will end in 2012.

To reduce emissions of greenhouse gases, Alliander rolled out the following activities in 2011:

Grid losses electricity transport	Grid losses[1], which account for 78% of our CO_2 emissions, play a major role in our CO_2 reduction strategy. These grid losses are increasing as our customers' energy requirements rise. Alliander has an ongoing programme in place for the reduction of grid losses. In 2011, the following steps were taken to minimise 'technical' grid losses: • a study was launched on ways of participating in sustainable electricity generation; • a feasibility study was concluded on the superconductivity cable, which can prevent approximately 50% of the grid losses per route. In 2011, the following steps were taken to minimise 'administrative' grid losses: • in the event of property vacancies, customers were contacted sooner and (where appropriate and permissible) the energy supply was shut off more quickly; • active steps were taken to combat fraud, such as clearing cannabis plantations in collaboration with the police.
Gas network grid losses	• Alliander made an active and targeted search for gas leaks in order to reduce methane emissions and improve public safety; • We conducted a targeted and accelerated replacement of leak-sensitive grey cast iron pipelines, thereby reducing methane losses.
SF_6	In 2011, no new switching installations below 30 kV were built using SF_6 (sulphur hexafluoride) as an insulation material.
Energy consumption in buildings	• Based on the CO_2 footprint for all ICT equipment, eight CO_2 reducing ICT actions were launched, such as the accelerated replacement of inefficient servers in the data centre; • Work continued on the construction of a fully sustainable support centre in Nijmegen; • Green electricity was purchased for the electricity consumption in our buildings; • Alliander took part in various awareness-raising campaigns, such as 'warm jumper' day, reducing the number of printed documents and the 'Act Green' office competition.
Sustainable transport	• In 2011, Alliander presented a sustainable transport strategy based on increased incentives to encourage employees to opt for the most energy-efficient mode of transportation for all their travel. • Alliander joined the 'Smart Work, Smart Travel' scheme and MVO Nederland's Sustainable Transport Initiative; • The company invested in 22 electric cars in 2011, bringing the total fleet to 42. We are aiming to increase this number to 100 by the end of 2012.
Construction/replacement of materials for electricity and gas	Alliander investigated the use of a recyclable cable (the P-laser) in partnership with a supplier. Application of the P-laser is scheduled for 2012.
Waste	Agreements have been concluded on recycling and efficient waste incineration. The CO_2 reduction with regard to traditional waste processing will be measured annually by our waste partner.

1 Grid losses consist of two components: technical grid losses and administrative grid losses. Technical grid losses arise when energy is lost as a result of the natural resistance of cables, transformers and other components in our networks. Administrative grid losses are caused by issues such as energy theft and vacant homes and business properties.

Alliander has set its sights high with the expansion of its office accommodation in Duiven. It issued an innovative call for tenders which invited construction consortia to submit a vision that addressed three ambitions: a positive energy balance for the office, a closed raw materials loop and embedding of the New Way of Working. In December 2011, the winning consortium was selected from a shortlist of 12, based on a concept which reused 90% of the existing buildings.

Despite these activities, we missed our CO_2 target of 832 ktonnes by 4 ktonnes. Emission levels were 35 ktonnes higher than in 2010, primarily due to the acquisition of Endinet (44 ktonnes), and the increase was largely reflected in the rise of CO_2 emissions due to leakage losses from the gas network. CO_2 emissions arising from installation and replacement activities went up by 9 ktonnes in response to the increased level of investments. By contrast, a reduction in leakages losses from the network (excluding Endinet) resulted in a decline in CO_2 emissions by 18 ktonnes.

CO_2 footprint[1]

In CO_2 tonnes	2011		2010	
	Emission	Compen-sation	Emission	Compen-sation
Scope 1 (direct emissions from in-house activities)				
Gas consumption buildings	2,681	-	3,015	-
Gas network leakage loss (total)[2]	112,871	-	94,720	-
SF_6 emissions from electricity network[3]	1,793	-	1,520	-
Lease and company cars[4]	17,059	-	16,584	-
Total scope 1	**134,404**	**-**	**115,839**	**-**
Scope 2 (indirect emissions from in-house activities)				
Electricity consumption buildings[5, 6]	6,539	6,539	7,260	7,260
Electricity transmission/distribution grid losses[5]	649,602	-	644,725	-
Total scope 2	**656,141**	**6,539**	**651,985**	**7,260**
Scope 3 (chain emissions from product usage and direct and indirect emissions from contracted-out activities)				
Electricity network construction and replacement	37,949	-	28,270	-
Gas network construction and replacement	416	-	314	-
Commuter, business, air travel	1,964	-	1,616	-
Waste[7]	5,131	-	3,145	-
Total scope 3	**45,460**	**-**	**33,345**	**-**
Total	**836,005**	**6,539**	**801,169**	**7,260**

1 Alliander calculates and reports the CO_2 emissions according to the Greenhouse Gas Protocol (GHG Protocol). From 2011, the chain emissions associated with raw material extraction and electricity and gas transmission will be included in this calculation. The chain emissions associated with the release of CO_2 from electricity transmission/distribution losses, electricity consumption and gas consumption in buildings totalled approximately 2%. The comparison figures have been adjusted.
2 Methane emissions from the gas pipe network. In 2011, the calculation base for CO_2 emissions due to gas network leakage losses was updated. CO_2 emissions from gas network leakage losses for 2010, according to the 2010 calculation base, came to 89,151 tonnes.
3 SF_6 concerns leakages from high-voltage switch installations.
4 With effect from the 2011 annual report, emissions from lease and company cars are included under scope 1. With effect from 2011, chain emissions arising from raw material extraction and transport have also been included in the calculation of CO_2 emissions. The comparative figures have been adjusted. CO_2 emissions in 2010 for lease and company cars according to the 2010 calculation base came to 13,810 tonnes.
5 Emissions are based on the most recent Dutch production mix.
6 In 2010 and 2011, 'natuurstroom' (solar, wind and hydro power) was used to cover electricity needs in office buildings occupied by Alliander (excluding rented premises).
7 Waste CO_2 concerns the balance of standard CO_2 emissions and savings according to the statement from the waste processing company.

In 2010, Alliander won the Dutch Sourcing Award (sustainability category) for a contract for low energy distribution transformers. We were again nominated in 2011, this time for the contracting out of cleaning services. The price for these services was agreed in advance and contracted out on the basis of quality and protection of the status of the cleaners.

Socially responsible procurement (SRP)

Alliander and its suppliers are looking at ways to make the energy supply chain more sustainable. We are keen to use everyone's expertise in sustainable innovation projects. Each year, Alliander (excluding Endinet) purchases approximately € 800 million in products and services, and can select its own supplier. By 2016, Alliander wants spending on 80% of all purchases made through its own choice of suppliers to be fully sustainable. To achieve this, we contract suppliers on the basis of a Socially Responsible Procurement statement, which stipulates the generic and specific sustainability criteria we are working towards in our partnerships. The SRP statement is a supplement to our 'Suppliers Code of Conduct', which governs each contract we sign and is published on www.Alliander.com. The code requires that the supplier adheres to ethical and fair business practices. In 2011, 30% of our expenditure was directed at meeting the SRP criteria, in line with our target.

Contracts with international suppliers (e.g. China, Bulgaria) are subjected to audits carried out by a specialist agency. By working with local auditors, we aim to ensure compliance with our code of conduct and environmental specifications. In 2011, Alliander decided to appoint a committee to optimise the application of all the knowledge and experience surrounding audits in these countries. In 2011, our process of socially responsible procurement and SRP declarations led to the following results:

- CSR criteria were included in advance in a combined tender with infrastructure companies in the province of Zuid-Holland. Alliander submitted a tender based on the criterion of 'most economically cost-effective tender' rather than a tender based primarily on cost;
- Following a CSR audit, we decided not to proceed with a contract with a supplier in Bulgaria, since the safety and working conditions and environmental performance failed to meet our specified criteria;
- We imposed strict environmental requirements on a tender for multifunctional printers, mainly regarding energy efficiency and feedback options for users regarding paper consumption;
- We included CO_2 reduction measures as purchasing criteria in a major tender for contractors laying cables and pipelines. Two of the six parties were certified for the CO_2 performance ladder, while the tender prompted a further two to become certified. ;
- We applied an MViO (CSRi) performance measurement to our largest commercial service provider. This resulted in an action programme to reduce the number of journeys made, to foster cooperation in the built environment, to tighten each other's CSR strategy and to improve the service provider's transparency.

"Together with our suppliers, we are looking at ways to make the energy supply chain more sustainable."

Waste

Alliander is taking steps to close its materials loops in the waste flows for carpet, office chairs and hardware as fully as possible. The various waste flows for office waste were quantified. In 2011, Alliander generated approximately 8,000 tonnes more industrial waste than in 2010. This rise was partly due to the increase in electricity and gas network replacement activities, which led to a substantial increase in waste. For example, a higher volume of cast iron (metal) was replaced and more cables and other pipes (plastics and metal) were also replaced. This also generated more soil waste. The increase in the volume of hazardous waste was due to our focus on asbestos removal, which will continue in 2012. In 2011, Alliander concluded satisfactory agreements on waste processing with the waste processing company SITA. Our waste management is based on useful recycling. One of the targets for 2011 in our SRP agreements with the waste processor involved increasing the volume of waste we recycle by more than 80%. This target was met.

In 2020, around 80% of our customers are likely to have a smart meter. We intend to dispose of the traditional meters in the most eco-friendly way possible. In 2011, Alliander conducted a pilot project on the responsible disposal of traditional energy meters. Old electricity meters were disassembled in a sheltered workshop. The constituent materials could be used for energy recovery or sustainably processed. This will help us meet our target for responsible business practice and for being a socially committed network company.

Waste flows

In tonnes of waste	Category	2011	2010
Office waste	Paper and board	767	586
	Small hazardous	5	9
	Other	1,157	745
Subtotal		**1,929**	**1,340**
Industrial waste	Paper and board	358	282
	Metals	8,250	4,541
	Timber	429	233
	Plastics	440	239
	Soil	921	462
	Other	6,866	4,287
Subtotal		**17,264**	**10,044**
Hazardous waste	Miscellaneous hazardous	827	620
Total		**20,020**	**12,004**

Socially committed network company

Alliander supports social initiatives that tie in with its role as a network company.

Step2Work

Alliander's Step2Work programme offers people at a disadvantage on the labour market the opportunity to reintegrate. The programme's target group was widened in 2011. In addition to focusing on long-term unemployed and disabled young people (Wajong benefit claimants), Step2Work now also focuses on people from outside the energy sector. Alliander offers these individuals work experience placements en route to securing a permanent job either within Alliander or with one of its suppliers. The 2011 collective labour agreement (CAO) specified that during the term of the CAO, network companies should set aside an extra 1% of annual wages for the scheme. In 2011, there were 74 new participants in Step2Work.

Sponsorship

We underline our social role through sponsorship, which allows us to support effective initiatives that benefit society, both financially and in other ways. Sponsorship also helps us to build lasting relationships with customers and other stakeholders in areas such as sustainability, innovation, technology, art and culture. In 2011, Alliander sponsored Introdans, TEDxAmsterdam, the television programme Green Dream District and the Bart de Graaff Foundation. Alliander spent a total of € 300,000 on sponsorship in 2011.

Voluntary work

In 2011, Alliander continued to encourage its employees to be involved with each other and with society outside their work.

- The Alliander Foundation enables employees to launch projects for volunteers. In 2011, more than 800 employees were engaged in voluntary activities. Some spent a day volunteering as a team. A total of approximately € 190,000 was divided among 72 projects. The Alliander Foundation works closely with the charity Nederland Cares.
- In cooperation with participation coaches from the municipality of Arnhem, Alliander developed a training course for a select group of residents from disadvantaged local neighbourhoods. The aim of the initiative is to increase opportunities for participation on the labour market.

Transparency

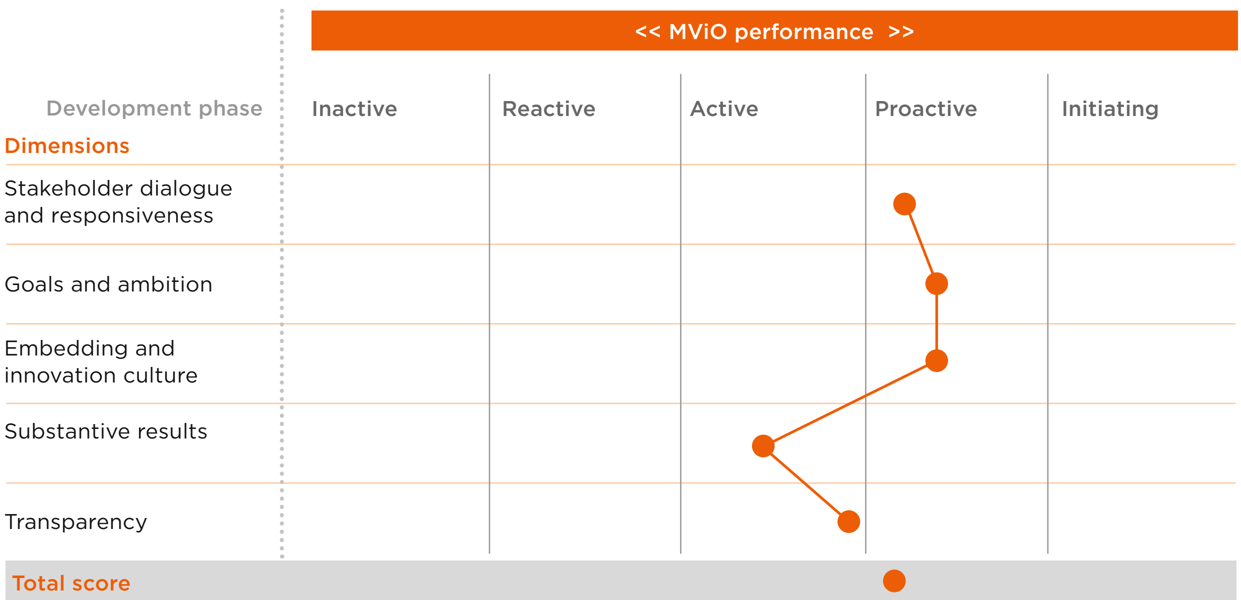
Alliander wants to make its choices and achievements clear to others, and therefore ensures its reporting is transparent. This helps us conduct a forward-looking dialogue with stakeholders and clarifies where we can exploit new opportunities to make the environment more sustainable.

Key milestones in 2011:

- The 2010 annual report met the GRI B+ level. We will continue to apply this standard for the 2011 annual report.
- Our efforts to increase the transparency of our performance improved the transparency rating of Alliander's annual report from 42nd to 12th position on the Dutch Ministry of Economic Affairs, Agriculture and Innovation's 2011 transparency benchmark ranking. The jury judged the report to be reliable, clear and relevant.
- In 2011, Alliander organised a round table dialogue with partners KPN, e-Decentraal, NEN, the University of Amsterdam and the University of Groningen concerning the 2010 annual report and the choices it had made for 2011. Alliander attracted praise for the completeness of its report but was advised to give clearer reasons for the strategic choices it had made.
- Rating agency Oekom awarded Alliander a 'prime' rating. This means that Oekom considers that our listed bonds qualify for ecological and socially-driven investments. The yardsticks applied include social responsibilities, corporate governance, product responsibilities, environmental policy and eco-efficiency.
- Alliander helped draft the international guidelines on self-assessments for the ISO 26000 standard. The pilots that Alliander conducted for ISO 26000 were included in the NEN publication concerning these guidelines, entitled 'Implementation for CSR'.

In the context of internal transparency, we measure the (organisational) development on social performance using the MViO performance model. This model is applied both to individual business units and to the group as a whole. In areas where our actual performance is measured through regular planning and control cycles, the MViO performance model shows whether all the organisational requirements are in place to turn in a good social performance. The model assesses five dimensions: the quality of our stakeholder dialogue, the quality of our ambitions and goals, the embedding of CSR in our work processes and in our innovation culture (the 'i' in MViO), the results we have achieved and our transparency. We use an annual MViO measurement to determine how to progress further towards a higher phase of development. In 2011, 13 business units were assessed using this model. Alliander currently stands at level 4 (proactive).

MViO performance model with Alliander's score



"For Alliander, corporate social responsibility isn't just an activity, it's a mindset."

Outlook for 2012

For Alliander, corporate social responsibility isn't just an activity, it's a mindset. When taking important decisions, a company that embraces corporate social responsibility always weighs up economic, social and environmental interests.

Dialogue on the statutory framework

In pursuing our goals, we must always take account of the statutory framework in which we operate. Our goal to accelerate the transition to decentralised power generation, the use of green gas and electric transport does not always sit comfortably with the legal scope afforded to network operators. This requires a continuation of the dialogue with our regulator and network operators in 2012. Alliander feels that there are further opportunities to speed up the energy transition with limited costs to society.

Growing in our development

Alliander sets great store by transparency, which is why we closely monitor our own development. The MViO performance model challenges us to keep setting our sights progressively higher. In 2012, we will be introducing the ISO 26000 guideline as a yardstick for our own policy and work processes. Alliander will again publish an integrated report on its operational, financial and social performances during 2012. Our aim is that this report should further improve our position in the international transparency ranking. Our ambition is to be awarded A+ status in due course. We will seek to achieve this by clarifying and explaining all the key GRI core and sector indicators. Reporting at GRI A+ level will help Alliander to be more transparent about its work and its contribution to society.

Growing in our performance

In 2012, in order to improve our CO_2 footprint we will increase our investment in energy saving in our own buildings, substations and ICT equipment. The strengthening of our networks from 10 kV to 20 kV will result in fewer grid losses and hence a better CO_2 performance. We are also investigating the opportunities for increasing the share of energy generated from sustainable sources in 2012 in the 'greening' of our own energy consumption. To improve our CSR cooperation within the chain, we will seek to increase our socially responsible procurement from 30% to 40%.

We also want to take up responsibilities which are not directly linked to our day to day work. In 2012, we will therefore continue to encourage our employees to take advantage of the Alliander Foundation. As a leading regional employer, we can make a difference. In 2012, we will again be giving at least 75 employees at a disadvantage on the labour market the opportunity to develop themselves further within Alliander. By widening the programme's target group, we hope to exceed this target.

from spectator to participant

Changing the way we approach energy calls for cooperation. Alliander brings together people and organisations in the form of companies, experts, politicians and consumers. We create a podium for innovative ideas and applications. Together we experiment, learn and evaluate.

smart city

Residents, companies and governments want to make Amsterdam the most sustainable city in Europe, and we're helping. In 2011, Amsterdam Smart City won the European City Star Award.

e-laad

Do you fill up your car with petrol, diesel or green energy? Electric cars are more eco-friendly and you can now recharge your e-car at more than 1,000 recharging points throughout the Netherlands. Stichting e-laad brings together all the network operators to work on a joint network of recharging points.

Texel: smart and self-sufficient

The municipality of Texel wants to be able to fully meet its own energy requirements through renewable energy by 2020. We are helping them do so. In 2011, we installed the first smart meters in Texel.

Urgenda

Companies and consumers are joining forces through the Urgenda action group to accelerate sustainability in the Netherlands. Alliander is providing ideas in relation to electric cars, local energy companies and sustainable regional development.

Get involved...

...in working towards a new energy future. Your experiences in saving or generating energy locally can be used as valuable input for the network operators. Don't remain a spectator: become a participant!

About the picture: Amsterdam ArenA is a hotspot for football, concerts and conferences. From 2011, visitors will also be able to fill their car in a sustainable way at a Liander recharging point. This is our way of helping Amsterdam ArenA to meet its sustainability goals.

employees

Alliander encourages talent. We give our employees the scope to develop both professionally and personally. This unleashes energy and creativity which we can then use to improve our performance and society as a whole.

Management variables

3.2 — Lost Time Injury Frequency (LTIF) average number of accidents involving absence from work per million hours worked

8.3 — Employee satisfaction survey score

4.1% — Absenteeism

20% — Women in management positions

Alliander wants to be a top-quality employer: an organisation whose employees have confidence in the professionalism and skill of their colleagues, enjoy their work and are proud of what they do.

Modern employment practices

Working for Alliander also means working on the transition to a more sustainable energy supply. For many employees, this was a reason to join Alliander and remain with the company. New talent is also drawn by other considerations. To attract them, we also need more flexibility in our working methods and contracts. Alliander will therefore seek to offer more options to prospective employees. Adopting modern employment practices is one of our strategic themes, and is embedded in our terms of employment.

Employees by type of employment contract

	2011	2010
Number of own employees and temporary hires (in numbers)		
Employees with permanent contract	5,250	5,124
Employees with fixed-term contract	516	404
Total number of own employees (in numbers)	**5,766**	**5,528**
Temporary hires	1,186	793
Total number of own employees and temporary hires (in numbers)	**6,952**	**6,321**
Percentage of full-time/part-time employees		
Employees with a full-time employment contract or temporary contract	84%	85%
Employees with a part-time employment contract or temporary contract	16%	15%
Number of own employees and temporary hires (FTEs)		
Total number of own employees	5,543	5,316
Temporary hires	1,104	728
Total number of own employees and temporary hires (FTEs)	**6,647**	**6,044**

Segmentation by number of own employees

	2011	2010
Province of residence of employees		
Gelderland	50%	51%
Noord-Holland	31%	29%
Friesland	5%	5%
Zuid-Holland	4%	5%
Noord-Brabant	4%	5%
Flevoland	2%	2%
Other provinces in the Netherlands	2%	1%
Germany	2%	2%

Employee survey

Alliander believes it is important to know how its employees are getting on and experiencing their work. Employee surveys show which aspects of employee satisfaction need to be addressed. In 2011, Alliander's employees gave the company a score of 8.3 in the annual employee survey, compared with 8.1 in 2010. Employees are positive about the commitment, customer focus, safety and working conditions at Alliander. Themes that call for attention include the staff appraisal process and work-life balance. Employees working for Endinet also took part in this 2011 employee survey. They awarded the company a score of 7.7. Endinet staff were positive about customer focus and commitment. They highlighted the appraisal process, workload and work-life balance as areas requiring attention.

Alliander is proud of the steady results from the employee survey. In order to raise skills to a higher level and strengthen our position on the labour market, we have launched a follow-on process. Cultural aspects and labour relations will be measured by the 'Great place to work' survey. The first such survey was held in December 2011 and the results will be published in 2012.

The New Way of Working ('Alliander works!')

In 2011, Alliander launched the 'Alliander works!' programme, which presents a vision of a new way of working within Alliander. Key elements include teamwork, knowledge-sharing and effective deployment of the knowledge, expertise and creativity of all employees. The programme indicates which facilities are needed to achieve this. Examples include a restructuring of the physical and digital workplace, facilitating flexi-time and flexi-place working and new travel schemes.

The programme will make a significant contribution to Alliander's aim of becoming an attractive employer for both current and future personnel.

Women in leadership positions

Alliander is encouraging women to progress to leadership positions. We are also working to further build a culture based on diversity to ensure that women who are in leadership positions at Alliander remain with us.

In 2011, there were 443 men and 108 women in leadership positions. Alliander is taking steps to keep the percentage of women in leadership positions (2011: 20%) at least at the same level until 2015. Our target for 2011 was 18%.

We anticipate an increase in vacancies as a result of developments on the labour market (an ageing population, shrinking youth population, low levels of inflow and outflow of technical training) and a rise in electricity and gas network replacement activities. By year-end 2011, Alliander was also employing 1,186 external contract staff. We are working to achieve a good balance between internal and external employees and aim to fill our structural knowledge-intensive positions with employees who have an employment contract with Alliander. Temporary positions (including temporary knowledge-intensive positions) will be filled with a balanced mix of internal contract employees and external staff. A higher number of temporary staff with specific knowledge were appointed to specific projects in 2011.

Employee diversity

	2011	2010
Diversity own employees by gender		
Male	81%	81%
Female	19%	19%
Female/male average salary ratio	90%	87%
Diversity of management by gender[1, 2]		
Male share in leadership positions	80%	83%
Female share in leadership positions	20%	17%

1 Concerns all employees in leadership positions.
2 In 2011, 10% (2010: 9%) of the total number of employees held a leadership position.

Labour relations

The relationship between employers and employees is changing. Employees are becoming increasingly responsible for their own careers. They are taking steps to improve their own knowledge, skills and experience, and will be sharing these assets as part of an employment relationship based on equivalence. This is the most important reason why Alliander is working, together with the sector as a whole, to help develop modern labour relations.

Network operators already often work together in the sector to carry out their primary role and this cooperation is now spreading to the social aspects of their work. In 2011, together with other sectoral employers and trade unions, Alliander drew up a vision on new labour relations in the network sector. The memorandum 'Investing in people' is now part of the CAO agreement. It contains the main themes for the coming years, namely CAO-related innovations, the labour market, training and social innovations in labour relations.

In partnership with other players in the sector, Alliander will in future conduct campaigns in the sphere of good education, sustainability and the image of technology. Cooperation within the sector will accelerate progress, reduce costs and generate a greater impact.

CAO

On 28 March 2011, employers and the Abvakabo FNV, CNV Publieke Zaak and VMHP-N trade unions reached a negotiated settlement on the new collective labour agreement (CAO) governing employees in the network companies sector (NWB). This new CAO for network companies will be valid for two years, from 1 May 2011 to 1 May 2013.

Social plan

The social plan contains a series of basic social principles which will be applied during processes of organisational change within Alliander. They include the employee placement process, advice and assistance for redundant staff and training facilities. The period covered by Alliander's social plan has been extended to 30 April 2013. It will therefore run concurrently with that of the CAO for the network companies sector. A single social plan for the sector is also being developed, based on the memorandum 'Investing in people'. The guiding principle will be to help people from work to work within the sector.

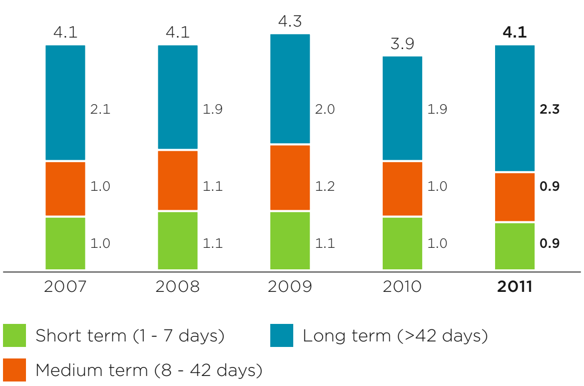
Endinet

On 1 January 2011, the Endinet employees' employment conditions and job matrix were integrated into those of Alliander. Endinet has also become part of the Alliander employee representation process. Following the acquisition, the company launched a transition aimed at the creation of a future strategy, based on the principle that all employees can help give direction to Endinet from within their own sphere of responsibility and professional expertise. In 2011, Endinet invested in the recruitment of new employees to ease workloads.

Vitality

A healthy organisation offers good prospects for the future. Alliander is therefore investing in the health and fitness of its employees. The moving average of absenteeism in 2011 was 4.1% (compared with 3.9% in 2010). Long-term absenteeism rose, partly because while employees reported sick less often they were off work for longer periods of time.

Absenteeism trend in percentages



High-Energy Employees programme

In 2011, Alliander helped to boost the vitality of its employees through the High-Energy Employees programme. The programme consists of various components: lifestyle and exercise, a medical examination, absenteeism and treatment plan. It gives employees the opportunity to take part in fitness tests, provides information on health and offers supervised training sessions. In 2012, the High-Energy Employees programme will be given an additional boost through the Gold in the Workplace programme. This is a joint initiative operated by NOC*NSF, Randstad and Sport & Zaken, which uses the skills and abilities of current and former top sportsmen and women to benefit organisations.

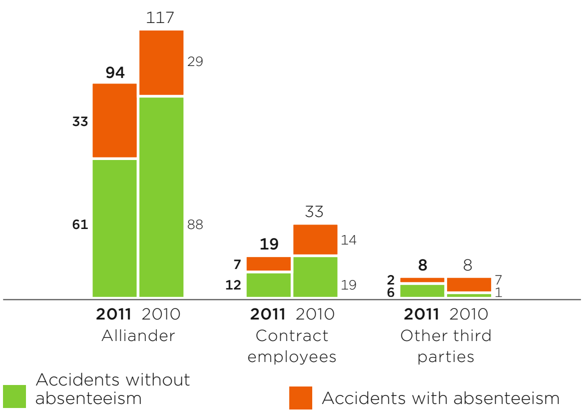
Number of participants in occupational health programmes

	2011	2010
Participants	1,097	1,130

Number of accidents recorded in 2011

The number of accidents associated with absenteeism at Alliander increased in 2011 compared with 2010. The number of accidents that did not involve absenteeism fell.

Number of recorded accidents[1,2]



1 'Alliander' refers to Alliander's company employees and temporary hires for whom Alliander has an 'employer's responsibility'.
'Contract employees' are contractors for whom Alliander has a 'principal's responsibility'.
'Other third parties' are people with whom Alliander has no direct or indirect contractual relationship; 'passers-by'.
2 There were no accidents resulting in fatalities in 2011 or 2010.

We measure our safety performance through Lost Time Injury Frequency (LTIF). This figure expresses the safety of the workforce in terms of the number of accidents leading to absenteeism as a proportion of the number of hours worked. In 2011, a total of 94 industrial accidents involving Alliander employees were reported, compared with 117 in 2010. Of this total, 33 led to absenteeism, compared with 29 the previous year.

Alliander regrets the occurrence of these accidents and in 2011 appointed a task force to further enhance safety awareness. In future, extra attention will also be given to safety during training and the induction of new employees.

Lost Time Injury Frequency (LTIF)[1]

	2011	2010
LTIF	3.2	2.6

1 The LTIF value (2010 excludes Endinet and Stam & Co in connection with acquisition during that year) is the number of accidents leading to absenteeism per million hours worked. With effect from 2011, the number of hours worked is based on both the number of own employees and temporary hires at the start of the financial year, rather than on the average number of own employees. The LTIF value for 2010 was adjusted for comparison purposes (the reported value for 2010 was 3.1).

Development

The development of people and knowledge is vital in an ambitious and constantly evolving organisation. Alliander is therefore investing in personal and professional development and is using this to encourage employee promotion. We want the best qualified people in the right place in all areas of the organisation. Our leadership and employee framework encouraged managers and their teams to maximise their performance and development.

Training

Alliander offers all its employees the scope and budget to pursue training. Alliander arranges training courses in leadership and employee skills. In 2011, three leadership days were organised, during which management discussed strategic themes. Furthermore a separate programme was developed for specialists and advisors. The energy transition is altering the content of training. First, new skills are being acquired which will help support the energy transition. These include the digitalisation of the network, remote preventive maintenance and the interpretation of data. Second, training is focusing on the skills that are needed to maintain our existing energy network. Through management development, we are preparing managers for our strategic top positions.

In 2011, Alliander introduced a new training model which gives employees the opportunity to acquire new skills and knowledge when and how it suits them best, using their own personal learning preferences. This applies to all training, with the exception of technical training which is used to guarantee the safety and quality of the work. In 2011, the safety certificates for the employees of all the network operators were extended through 2012. As a result, fewer employees took part in a safety training course in 2011.

Number of safety training courses[1]

By category	2011	2010
Own employees	1,612	2,051
Contract employees at constructors	283	1,114
Other third parties[2]	-	236

1 Concerns the number of BEI (Operation of Electrical Installations) safety training courses and VIAG 2010 (Gas Safety Instruction) courses that were successfully completed.
2 With effect from 2011, no more safety training courses will be offered to other third parties.

Alliander Expedition

November 2011 saw the roll-out of the Alliander Expedition, a 'journey to the future' for all employees. During the event, staff in all business units displayed the innovations they were working on. More than 3,000 employees discovered the projects and partnerships that had been launched and the event was judged a valuable initiative.

Job opportunities and the labour market

It is a challenge for the energy sector to attract new employees. We want to bind young talent and highly skilled personnel to the company long-term, with a view to retaining their knowledge and professionalism. However, in order to be able to respond to changes in the energy sector, Alliander needs to take on more and different talent. Technical innovations and digitalisation are among the factors that are increasing the complexity of the work being done on our energy networks.

Shortage of qualified personnel on the technical labour market

The labour market is shrinking, particularly when it comes to the number of job seekers with a technical background at preparatory secondary vocational ((V) MBO) and senior vocational/university (HBO/WO) level. The population is also ageing and the number of technical students is in decline. This is likely to lead to a shortage of technical personnel from about 2015. Therefore, in 2011 Alliander began a process of pre-selection to get young people interested in and enthusiastic about working in the technology sector. Teaching packs were designed for schools and Alliander worked with the sector on the promotional campaign 'WATT?' Interaction and social media were given an important role in the recruitment activities for technical staff. In 2011, Alliander organised a network day at Science Centre NEMO to establish contact with individuals with technical qualifications and skills.

Attracting talent

Alliander's recruitment drive emphasises the sustainable nature of its work. Using examples of innovative projects and solutions, we show that working for Alliander allows prospective employees to make a genuine contribution to a sustainable society.

By providing challenging work, good terms of employment and a positive working atmosphere, Alliander is positioning itself on the labour market as a 'top employer'. The annual independent survey on leading employers conducted by Intermediair put Alliander in first place in the Energy & Utilities category and in 18th position overall (25th in 2010). In 2011,

In 2011, Alliander offered the following training courses:

- The Leadership and Employee skills courses: 449 registrations.
- The Alliander Professional for specialists and advisors: 26 participants.
- The Senior Management Programme 2010/2011: 20 participants.
- The Starting Manager Programme 2011/2012: 24 participants.
- Professional practical skills course (BBL): In 2011, 255 employees attended the training course to become an electrical or gas fitter. Participants completed one day of theory and four days of practical experience at Alliander per week.
- Technical Training: in 2011, 1,612 employees took an electrical installations operation (BEI) and gas safety instruction (VIAG 2010) test.
- Safety training: in 2011, 2,212 employees underwent safety training (safety, health and environmental measures (VCA), first aid, instruction in operating fire safety equipment and road safety).

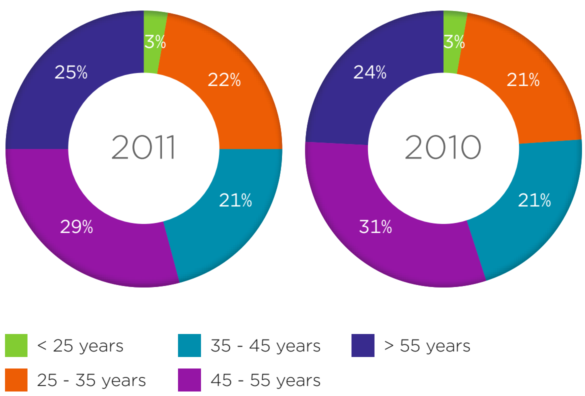
we were awarded the Personal Development Certificate on the strength of Intermediair's employer survey. This certificate demonstrates that Alliander takes the development of its employees seriously. Alliander is also encouraging employee promotion. In 2011, 14% of its employees changed jobs internally.

We also attract young talent through traineeships. Alliander offers graduates traineeships in four areas: technical, management, IT and finance. In August, Alliander was nominated for the Best Traineeship 2011 award for all its traineeships. We also brought the company to the attention of graduates as a potential employer through the social media campaign Green House Challenge.

Incoming and outgoing own employees

	2011	2010
Total incoming staff (in numbers)		
Incoming male staff	427	353
Incoming female staff	122	113
Total incoming staff	**549**	**466**
Total outgoing staff (in numbers)		
Outgoing male staff	246	144
Outgoing female staff	65	48
Total outgoing staff	**311**	**192**
Incoming staff due to consolidation of new companies	-	435
Outgoing staff due to deconsolidation of companies	-	-
Percentage of outgoing staff versus total number of employees	5.4%	3.5%
Average duration of employment (in years)	15	15

Age distribution own employees



Cooperation

Alliander is working with training institutes and sector partners to guarantee the quality and quantity of future labour capacity insofar as possible.

Cooperation within the sector

Alliander is working closely with partners in the sector to develop training facilities and relevant agreements were concluded in the 2011 CAO. Alliander has teamed up with TenneT, Enexis, Joulz and Stedin to roll-out projects to train sector employees. Since 2011, we have been working in Friesland with five contractors and ROC Friesland College to train installation engineers.

Training institutes

The number of registrations for technical training courses at regional training centres (ROCs) is decreasing, particularly in the field of electricity. Alliander is therefore also looking for future employees outside the energy sector. We are working with the vocational education sector to establish retraining initiatives.

In 2011, Alliander and ROC Leiden, Joulz and the contractor Van Voskuilen developed a skills-based training course for technicians. This will help to ensure that vocational education output continues to match our staffing requirements.

Alliander also worked with universities and colleges of higher education in 2011. We made a contribution to the project Sustainable Energy in the Vocational and Professional Education Segment, which is run by the Arnhem Nijmegen College. Alliander staff also taught classes on renewable energy to lecturers at educational establishments.

Surveys and competitions

Alliander is taking part in a number of surveys and competitions, such as the NRG Battle, to interest young people in working in the energy sector. The NRG Battle brings together students and organisations to work on topical issues. The Alliander and Grontmij student team won the 2011 NRG Battle after developing a new concept for successfully marketing biogas.

Employee representation

In 2011, the Central Works Council (COR) began an intensive consultation process surrounding the new collective labour agreement (CAO). Together with the employee representation platform for network companies and representatives of the trade unions, Alliander drew up a vision for a new CAO in combination with the New Way of Working. This vision provided the new CAO with structure and content in a joint consultation between employers, trade unions and the employee representation platform.

The employee representation body also organised elections in 2011 for all works councils throughout the group, with the exception of Endinet. Young people and women were specifically invited to put themselves forward as candidates. Employees voted for their colleagues online and by phone. The new members started their terms on 8 December 2011.

At Alliander, employee representation has a layered structure consisting of a Central Works Council (COR), the Alliander, Liander and Endinet Works Councils, and various working groups. The working groups respond to requests for advice or approval by compiling preliminary advice for the Works Councils. In 2011, they met with management to discuss reorganisations, outsourcing and safety. In 2011, the COR consulted twice with the Alliander Supervisory Board. The topics included Alliander as a learning organisation and cultural change.

Social networking

The Tension youth network organises activities aimed at putting young employees within Alliander in touch with each other to exchange ideas and experience. Tension thus helps to build bridges between the different Alliander departments and locations. In 2011, over 500 young people were members of Tension.

Alliander wants to make female talent visible within the group. It does so in conjunction with the women's network Lianne, which pools resources and organises workshops and network meetings. Lianne has joined a new platform for ambitious women, LEAP (Leadership Energy Ambition Power), in which female professionals from prominent organisations can meet.

"Modern employment practices are key to Alliander. Knowledge-sharing, professionalisation and an inspiring working environment are the building blocks."

Outlook for 2012

Modern employment practices are key to Alliander. Knowledge-sharing, professionalisation and an inspiring working environment are the building blocks. Spearheads have been formulated for 2012 which will contribute to the further realisation of its ambition to adopt modern employment practices.

Developing employee and leadership skills

Alliander is undergoing an internal transition to facilitate the change to a sustainable energy supply. This transition is designed to give and take more space and more responsibility as well as listen more attentively to stakeholders. In 2012, employees and management will build further on the new Alliander skills and Alliander College has devised special courses for this purpose. In 2012, all the career paths for employees will have been developed.

Diversity

We will further develop and implement our diversity policy. In 2012, Alliander's diversity policy will also focus on gender relations. We feel that a fully diverse personnel complement, in which male and female skills are equally represented, can provide innovative approaches to cooperation. In December 2011, Alliander launched an internal survey on providing equal rights and opportunities for women. The results will be published in 2012.

Optimum personnel planning

Our activities are becoming increasingly complex. Over the coming years, we will therefore be setting higher requirements when we recruit for key jobs within the organisation. In order to attract and retain the right employees, the strategic personnel planning for each business unit will be further improved during 2012. This strategic planning will target both the long- and the short-term and will give us a better understanding of inflow, throughflow and outflow within Alliander. In 2012, we will be working to achieve a 16% internal throughflow rate, to recruit 60 new fitters and to offer 30 technical trainees a job with Alliander.

Positioning on the labour market

The labour market will undergo radical change over the coming years, partly through the progressive ageing of the population and the resulting rise in the rate of employee outflow. We also see a decline in the number of people applying to join technical training courses. To address this issue, new campaigns will be launched in 2012 to recruit technical staff. Alliander will further expand cooperation with ROCs and colleges of higher vocational education in order to profile the company more strongly within the technical education sector. Alliander is constantly working to boost its 'brand familiarity' and image as a top employer. In 2012, we will step up our role in facilitating the supply of renewable energy. This will centre on projects and on future-proofing our links with society. Alliander will also initiate the sector-wide technical training of employees in 2012. These initiatives will help us further strengthen our position on the labour market.

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 2011 reporting year, as presented in 'About this Report' and 'Alliander in Focus' (henceforth: the 'Corporate Social Responsibility Report') of Alliander N.V., Arnhem. In this Corporate Social Responsibility Report Alliander N.V. accounts for its performance in respect of corporate social responsibility in 2011.

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 preperation of the Corporate Social Responsibility Report. Our responsibility is to provide 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 'About this Report' in the Corporate Social Responsibility Report. 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 legislation and regulations and the characteristics of the organisation;
- Assessing the acceptability of the reporting policies and their consistent application, 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 process of aggregating 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 adequately substantiated;
- 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 corporate social responsibility information in the annual report 2011 and 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, 7 March 2012
PricewaterhouseCoopers Accountants N.V.

Originally signed by:
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GRI statement

This report has been compiled on the basis of the Global Reporting Initiative (GRI) guidelines. These guidelines provide assurance of transparent reporting to stakeholders. The GRI G3 guidelines have been applied in combination with the Electric Utilities Sector Supplement (published in April 2009).

The GRI table provides detailed information on the application of the GRI guidelines. This table can be found in the online annual report (http://jaarverslag.Alliander.com).

Global Reporting Initiative™

Statement
GRI Application Level Check

GRI hereby states that **Alliander** has presented its report "Yearly report 2011" to GRI's Report Services which have concluded that the report fulfills the requirement 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.

Amsterdam, February 28th 2012

Nelmara Arbex
Deputy Chief Executive
Global Reporting Initiative

B+
GRI REPORT
GRI CHECKED

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 criteria for choosing the relevant assurance provider.

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***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 February 17th 2012. GRI explicitly excludes the statement being applied to any later changes to such material.*

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financial

Financial framework

Ratio	Result	Norm
FFO/Net debt	34.1%	> 20%
Interest cover	5.8	> 3.5
Net debt/ (net debt + equity)	37.0%	< 60%
Solvency	47.5%	> 30%

Rating		
S&P	A+/A-1/ Positive outlook	Preservation of solid A rating profile
Moody's	Aa3/P-1/stable outlook	

Financial policy

Alliander's financial policy aims at achieving a balance between generating an adequate return for shareholders and protecting bondholders and other providers of borrowed capital while retaining the flexibility to be able to invest and allow the business to grow. 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. For network operators Liander and Endinet, separate criteria pursuant to the Network Operators Financial Management Decree (Besluit Financieel Beheer Netbeheerder) also apply.

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 aforementioned ratios.

Dividend policy

The dividend policy (as part of the financial 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.

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 in principle investments in the regulated domain arise from a network operator's statutory task.

Financial results 2011

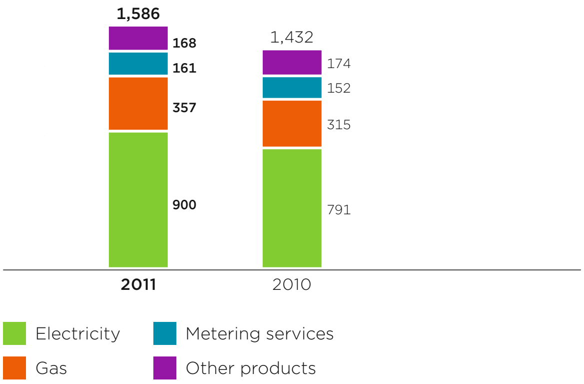
The profit after tax for 2011 was € 251 million (2010: € 222 million). Excluding incidental items and fair value movements, the net profit was € 228 million (2010: € 174 million). This increase of € 54 million was largely the effect of higher revenue from the regulated activities due to an increase in the regulated tariffs sanctioned by the Office of Energy Regulation and the consolidation as from 1 July 2010 of Endinet. This increase was partially offset by higher depreciation charges on the networks.

The cash flow from operating activities and the solvency ratio were both improved. The net debt position was slightly lower. Total assets fell by € 82 million, partly as a result of using available cash to repurchase bonds issued by the company.

2011 income statement

Revenue

Revenue
€ million



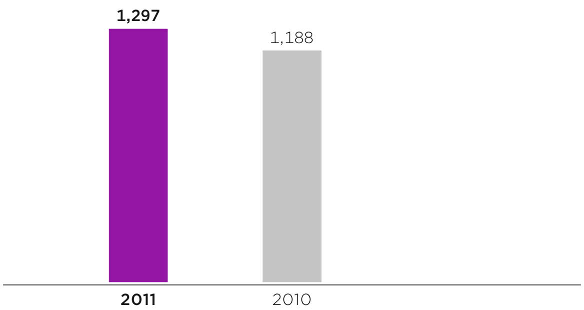
Revenue for 2011 was up by € 154 million (11%) compared with 2010, at € 1,586 million. This increase is largely the effect of the increase in the tariffs for both electricity and gas distribution activities, which are regulated (€ 88 million). In addition, Endinet was included in the consolidation for a full 12 months in 2011 whereas, in 2010, Endinet was only consolidated from 1 July onwards. The effect this has on 2011 revenue is € 54 million.

Other income

Other income in 2011 came in at € 109 million (2010: € 93 million). The increase of € 16 million is largely the result of the increase in the amortised amounts in 2011 due to the reduction in the useful lives of the electricity and gas networks.

Operating expenses

Total operating expenses
€ million



Total operating expenses for 2011 came in at € 1,297 million (2010: € 1,188 million). The increase of € 109 million compared with 2010 is mainly due to:

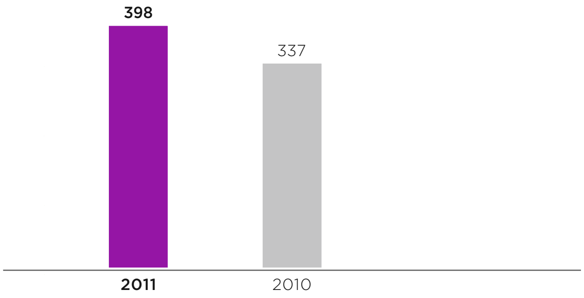
- the inclusion of Endinet's operating expenses in the consolidation (totalling € 40 million, including depreciation charges of € 17 million);
- higher depreciation charges due to a higher level of investment and a change in the useful life of the distribution network assets (totalling € 54 million).

In connection with the developments in the energy sector, such as energy transition, technological and economic progress and tougher safety standards, Alliander has prepared a plan setting forth its vision of the future. An important conclusion of this exercise is that Alliander will have to bring forward upgrades to the existing network (replacement investments) in order to satisfy future energy supply and demand requirements. As a consequence, the useful lives of the electricity and gas networks have been revised, resulting in shorter useful lives for both the electricity and gas networks with effect from 1 January 2011. This has led to an increase in the depreciation charges and amortised amounts (other income) for 2011, by € 38 million and € 14 million, respectively. The effect on the operating profit for 2011 amounts to € 24 million overall.

The increase in the operating expenses was mitigated to some extent by reduced overhead expenses and IT costs.

Operating profit

Operating profit
€ million



The operating profit for 2011 was up by € 61 million at € 398 million. The explanation of these figures has been given above.

Finance income and expense

Finance income and expenses in 2011 resulted in a net expense of € 176 million (2010: € 115 million). The increase of € 61 million was due to fair value movements in 2011 (€ 35 million) and costs connected with the repurchase of corporate bonds (€ 30 million), mitigated to some extent by an overall reduction in ordinary interest charges (€ 7 million).

Associates and joint ventures

The share in the results after tax of associates and joint ventures in 2011 was a loss of € 5 million (2010: € 8 million profit). The 2011 result includes an impairment loss of € 12 million following adjustments of projected medium-term results.

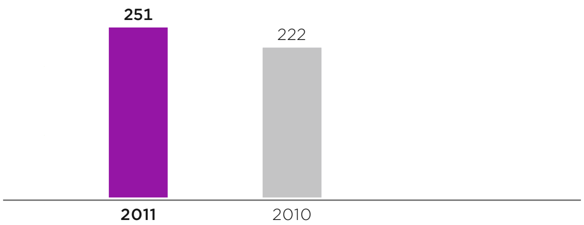
Tax

The effective tax rate (the tax rate expressed as a percentage of profit before tax excluding the share in the results after tax of associates and joint ventures) for the 2011 financial year was 15.1% negative (2010 3.6% charge). The substantial difference between the standard rate of taxation and the effective tax burden is mainly the effect of an adjustment in the forecast results in the long term, which led to an increase in the deferred tax assets, and the finalisation of the corporation tax assessments for prior years.

The difference between the standard rate of taxation and the effective tax burden in 2010 was mainly the result of a positive effect on the deferred tax assets due to adjustment of the projected long-term results, tempered to some extent by the reduction in the rate of corporation tax from 25.5% to 25% as from 2011.

Profit after tax

Profit after tax
€ million



The profit after tax for the year came in at € 251 million (2010: € 222 million). The result after tax excluding incidental items and fair value movements for 2011 was € 228 million, compared with € 174 million in 2010. The increase is largely attributable to higher revenue due to the increase in regulated tariffs, the effect of which was tempered by higher depreciation charges on the networks as a consequence of reducing useful lives.

Incidental items

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

Net incidental items and fair value movements in 2011 totalled income of € 23 million after tax (2010: income of € 48 million). The table below contains an overview of the reported figures and the figures excluding incidental items and fair value movements.

Reported figures and figures excluding incidental items and fair value movements

€ million	Reported		Incidental items and fair value movements		Excluding incidental items and fair value movements	
	2011	**2010** [1]	**2011**	**2010**	**2011**	**2010**
Revenue	1,586	1,432	-	-	1,586	1,432
Other income	109	93	-	-	109	93
Total purchase costs, costs of subcontracted work and operating expenses	-1,137	-1,071	-	-	-1,137	-1,071
Depreciation and impairments	-312	-241	-	-	-312	-241
Own work capitalised	152	124	-	-	152	124
Operating profit (EBIT)	**398**	**337**	**-**	**-**	**398**	**337**
Finance income/(expense)	-176	-115	-75	-	-101	-115
Result from associates and joint ventures	-5	8	-12	-	7	8
Profit before tax	**217**	**230**	**-87**	**-**	**304**	**230**
Tax	34	-8	110	48	-76	-56
Profit after tax	**251**	**222**	**23**	**48**	**228**	**174**

1 The figures for 2010 have been restated to reflect a change in presentation whereby all fair value movements on financial instruments are recognised in finance income and expense with effect from 2011.

Finance income and expense

(2011: € 75 million expense, 2010: nil)

Incidental items in 2011 relate to the additional costs (€ 30 million) connected with the repurchase of corporate bonds amounting to € 250 million in November 2011, discontinuing hedge accounting under IFRS in relation to the pre-hedge connected with the Euro Medium Term Notes (EMTN) programme (€ 39 million expense) and an expense connected with cross-border leases, including the cost of revaluing an investment related to a cross-border lease construction and forming an associated provision (€ 5 million).

Share in results of associates and joint ventures

(2011: € 12 million expense, 2010: nil)

The 2011 result includes an impairment loss of € 12 million following adjustments of projected medium-term results.

Tax

(2011: income item of € 110 million, 2010: income item of € 48 million)

The incidental income of € 110 million relates to an adjustment of projected long-term results with the effect of increasing the amount of the deferred tax assets, the finalisation of the corporation tax returns for prior years and the tax effect on the incidental items and fair value movements in 2011.

Incidental income was recognised in 2010, reflecting an increase in the deferred tax asset due to an adjustment in the projected long-term results. The effect was tempered by the reduction in the rate of corporation tax from 25.5% to 25% as from 2011.

Cash flows

Shown below is a summary of the cash flow statement for 2011.

Consolidated cash flow statement

€ million	2011	2010
Cash flow from operating activities	527	508
Cash flow from investing activities	-398	-340
Cash flow from financing activities	-524	-118
Net cash flow	**-395**	**50**

The cash flow from operating activities in 2011 amounted to € 527 million (2010: € 508 million). The increase is mainly due to a higher profit after tax and higher depreciation charges, the effect of which was partially offset by a smaller movement in working capital.

The cash outflow associated with investing activities in 2011 increased from € 340 million to € 398 million. The increase of € 58 million is entirely explained by an increase in capital expenditure on the networks.

In 2010, there were acquisitions totalling € 56 million, net of acquired cash, for Stam and Endinet. Included in this figure is the net amount of cash 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	2011	2010
Electricity regulated	236	192
Gas regulated	135	99
Metering devices	44	30
Buildings, ICT etc.	60	47
Total	**475**	**368**

The cash outflow associated with financing activities was € 524 million in 2011 compared to € 118 million in 2010. The difference of € 406 million is mainly due to the proceeds from the subordinated perpetual bond issued in 2010, amounting to € 494 million, and a change of € 346 million in short-term deposits. Some compensation for these outflows was provided by a lower amount in loan repayments in 2011 (€ 259 million) compared with 2010 (€ 684 million). The repayments in 2011 mainly concern the repurchase of corporate bonds. As regards 2010, Alliander repaid external loans contracted by Endinet totalling € 625 million in July 2010. Also in July 2010, an interest rate derivative instrument contracted by Endinet was cancelled, involving a payment of € 57 million.

Free cash flow in 2011

The free cash flow in 2011 amounted to € 129 million (2010: € 168 million). The drop of € 39 million compared with 2010 is entirely accounted for by the increase in the investments in the networks.

Reconsilitation free cash flow

€ million	2011	2010
Cash flow from operating activities	527	508
Investments in non-current assets	-479	-371
Investments in associates	-	-56
Construction contributions received	81	87
Free cash flow	**129**	**168**

Financial position

Net debt

The net debt position as at 31 December 2011 amounted to € 1,593 million compared with a net debt position of € 1,632 million as at 31 December 2010. With effect from 2011, interest-bearing receivables from third parties have been included in the net debt position. The 2010 figures have been restated accordingly for comparison purposes.

Reconciliation net debt position

€ million	31 December 2011		31 December 2010[1]	
Long-term interest-bearing debt	1,422		2,152	
Short-term interest-bearing debt	509		32	
Finance lease liabilities	133		128	
Gross debt		**2,064**		**2,312**
Cash and cash equivalents	106		501	
Non-current financial assets	130		123	
Interest-bearing receivables from third parties	38		40	
Current financial assets	295		125	
Investments held for lease obligations related to cross-border leases	149		138	
Total cash and cash equivalents and investments		**718**		**927**
Net debt in accordance with the annual financial statements (IFRS)		**1,346**		**1,385**
50% of the subordinated perpetual bond loan		247		247
Net debt on the basis of Alliander's financial policy		**1,593**		**1,632**

1 With effect from 2011, interest-bearing receivables from third parties have been included in the net debt position. The 2010 figures have been restated accordingly for comparison purposes.

Ratios

Ratios in accordance with Alliander's financial policy

	norm	31-12-2011	31-12-2010[1]
FFO / net debt	> 20%	34.1%	32.7%
Interest cover	> 3.5	5.8	5.5
Net debt / (net debt + equity)	< 60%	37.0%	39.3%
Solvency	> 30%	47.5%	44.3%

1 With effect from 2011, interest-bearing receivables from third parties have been included in the net debt position. The 2010 figures have been restated accordingly for comparison purposes.

The FFO/net debt ratio reflects the extent to which the net debt position can be repaid out of the cash flow from operating activities and 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 and amortisation of property, plant and equipment, intangible assets and deferred income divided by the net debt. On 31 December 2011 the ratio amounted to 34.1% (year-end 2010: 32.7%). This moderate increase is mainly the effect of the increase in the net profit. The interest cover ratio reflects the extent to which the periodical net interest charges can be met out of the cash flow from operating activities and refers to the 12-month profit after tax, adjusted for deferred tax assets and liabilities and incidental items and fair value gains and losses plus depreciation and amortisation of property, plant and equipment, 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 movements. As at 31 December 2011, this ratio worked out at 5.8, which is a higher figure than at year-end 2010 (5.5).

The ratio of net debt/sum of net debt and equity as at 31 December 2011 amounted to 37.0% (year-end 2010: 39.3%). The improvement is due to an increase in shareholders' equity in 2011. 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 2011 amounted to 47.5% (year-end 2010: 44.3%). Alliander's financial policy stipulates that this ratio should be a minimum of 30%.

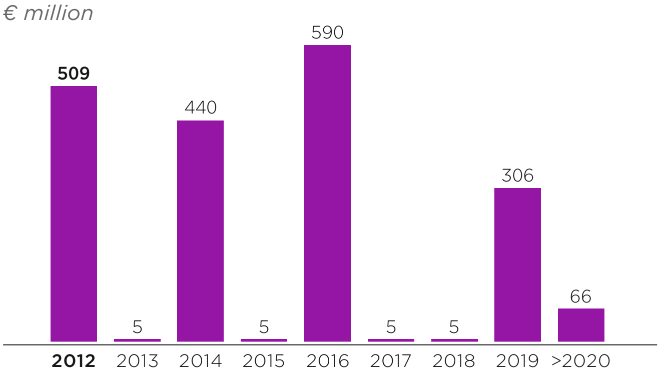
Financing

As at year-end 2011, the revolving credit facility (RCF) available to Alliander amounted to € 600 million. On 15 July 2011, the RCF, which was due to expire in March 2015, was extended until 15 July 2016 with the option of repeat extension in 2012 and 2013 for a further period of 12 months on each occasion.

Alliander also has a € 3 billion EMTN programme. As at year-end 2010, bonds totalling € 2.05 billion had been issued. In November 2011, Alliander repurchased bonds issued under the programme amounting to € 250 million, leaving bonds totalling € 1.8 billion in issue as at 31 December 2011. There is also a € 1.5 billion Euro Commercial Paper (ECP) programme. As at 31 December 2010, neither the RCF nor the ECP programme had been drawn on and there was no change in this situation as at 31 December 2011.

Repayment schedule for interest-bearing debt

€ million



Credit rating

In 2011, Standard & Poor's upgraded Alliander's credit rating from A/A-1 (stable outlook) to A+/A-1 (positive outlook). Moody's rating remained unchanged in 2011 at Aa3/P-1 (stable outlook).

Segment reporting

General

Alliander has applied IFRS 8 (Operating segments) with effect from the 2010 financial year.
Alliander identifies the following segments:

- Network operator Liander;
- Network company Endinet;
- Other activities within the Alliander group.

The figures for each reporting segment, excluding incidental items and fair value movements, are shown in the table below. These figures directly reflect the regular internal reporting. Detailed information on segment reporting can be found on page 111 of the financial statements.

Primary segmentation

	Network operator Liander		Network company Endinet		Other		Eliminations		**Total**	
€ million	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Operating income										
External income	1,433	1,305	114	64	148	156	-	-	1,695	1,525
Internal income	11	11	-	-	284	262	-295	-273	-	-
Total operating income	**1,444**	**1,316**	**114**	**64**	**432**	**418**	**-295**	**-273**	**1,695**	**1,525**
Operating expenses										
Total operating expenses	**1,076**	**974**	**88**	**45**	**428**	**442**	**-295**	**-273**	**1,297**	**1,188**
Operating profit	**368**	**342**	**26**	**19**	**4**	**-24**	**-**	**-**	**398**	**337**

Network operator Liander

The network operator Liander segment consists of the legal entity Liander N.V. which, as designated network operator within network company Alliander, has a statutory duty to manage the electricity and gas networks and related assets in the provinces of Gelderland, parts of Friesland, Noord-Holland, Zuid-Holland and Flevoland. Liander connects customers to the electricity and gas networks, through which it distributes electricity and gas. External income in 2011 was up by € 128 million compared with 2010, at € 1,433 million. This increase is mainly accounted for by the increase in the tariffs for energy distribution activities, which are regulated, in 2010. Operating expenses also increased, by € 102 million, mainly owing to higher maintenance costs and depreciation charges. Operating profit was € 26 million higher compared with 2010 at € 368 million.

Network company Endinet

The network company Endinet segment comprises Endinet Groep B.V., including the network operator Endinet B.V.

Endinet was acquired by Alliander on 1 July 2010. On 1 January 2011, Liander integrated the activities of Endinet Haarlemmermeer B.V. into its existing activities. On the same date, the network operators Endinet Oost-Brabant N.V. and Endinet Regio Eindhoven B.V. were merged into Endinet B.V.

External operating income in 2011 amounted to € 114 million. For the period 1 July-31 December 2010, external operating income was € 64 million. The operating profit for 2011 was € 26 million. The operating profit for the second half of 2010 was € 19 million.

Other

The Other segment comprises all the other operating segments within the Alliander group, including the activities of Liandon, Stam, Alliander AG, the corporate departments and the service units. External operating income in 2011 was down € 8 million compared with 2010, at € 148 million. This drop was a consequence of lower external income generated by Liandon B.V., together with other factors. The operating profit for the 2011 was € 4 million (2010: € 24 million loss). The improvement of € 28 million compared with 2010 mainly reflects lower expenses for the corporate departments and service units.

Balance sheet

The abridged balance sheet as at 31 December 2011 is shown below. The following notes explain the significant changes in the balance sheet as at 31 December 2011 relative to the situation as at 31 December 2010. Detailed information on balance sheet items is given in the financial statements.

Consolidated balance sheet

	Alliander NV	
€ million	**31 December 2011**	**31 December 2010**
Assets		
Non-current assets	6,612	6,448
Current assets	706	952
Total assets	**7,318**	**7,400**
Equity and liabilities		
Total equity	3,079	2,906
Non-current liabilities	3,264	3,965
Current liabilities	975	529
Total equity and liabilities	**7,318**	**7,400**

Non-current assets

The amount of non-current assets as at 31 December 2011 was € 164 million higher than as at 31 December 2010. This increase is mainly accounted for by the higher level of investment in the networks and is despite the fact that depreciation of the network assets also increased, owing to the shorter useful lives. The deferred tax asset was also reduced by € 22 million compared with the position as at year-end 2010. 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 € 20 million.

Current assets

The decrease in current assets by € 246 million compared with the position as at 31 December 2010, to € 706 million, is largely a consequence of the decrease in the cash and financial assets (time deposits) position connected with the repurchase of corporate bonds using available cash. Corporate bonds totalling € 250 million were repurchased. Trade receivables remained on a par with the position as at year-end 2010.

Equity

Equity as at 31 December 2011 increased by € 173 million compared with the level as at year-end 2010, to € 3,079 million. This increase is mainly accounted for by the net profit for 2011, amounting to € 251 million, less the dividend distribution for 2010 made in 2011 (€ 80 million). A summary of the movements can be found on page 96 of the financial statements.

Non-current liabilities

The amount of non-current liabilities was down by € 701 million compared with the position as at 31 December 2010. This drop is partly a direct consequence of transferring that part of the EMTN portfolio which matures in April 2012 (€ 500 million) to current liabilities. Added to this, there was a repurchase of corporate bonds amounting to € 250 million in 2011.

Current liabilities

The current liabilities as at 31 December 2011 were up by € 446 million compared with a position as at year-end 2010, at € 975 million. This increase is mainly due to the previously mentioned transfer of part of the EMTN portfolio in connection with the repayment schedule for April 2012 (€ 500 million).

Other

2011 profit appropriation

The Management Board has determined, with the approval of the Supervisory Board, to add € 138.0 million of the profit to other reserves. The remaining profit of € 113.0 million is at the disposal of the General Meeting of Shareholders. This equates to 45% of profit after tax, excluding net incidental items that did not generate cash flows in the 2011 financial year. Account was also taken of the ministerial requirement connected with the unbundling, setting a cap of 45% of net profit on the dividend declaration. This dividend limit applies until 1 January 2014.

Events after balance sheet date

Alliander holds an interest of 25.4% in N.V. KEMA (KEMA). On 28 February 2012, an agreement was signed under which almost all the other shareholders have sold their stakes in KEMA to the Norwegian company DNV. Alliander and DNV also signed an agreement on the same date on the basis of which Alliander will be able to transfer the shares which it holds to DNV in due course. The agreement gives Alliander a put option enabling the company to sell its interest in KEMA for an already agreed price at some time in the next few years. For its part, DNV has a call option conferring the right to buy Alliander's shareholding in KEMA at a similarly agreed price.

As part of this transaction, KEMA paid a dividend of € 60 million on 28 February 2012, of which, Alliander received € 15.3 million.

Group company Endinet has transferred its public lighting activities to the joint venture Ziut B.V., with effect from 1 January 2012.

Also at the beginning of 2012, Alliander took a stake of 21.25% in The New Motion. This company develops charging products for electric vehicles which can easily be installed in any location, providing a smart solution. The investment amounts to € 1.7 million.

Outlook for 2012

Investment

Gross capital expenditure, chiefly on replacement and expansion of the networks but also including investment in SASensors and charging points for electric vehicles, will amount to a total of € 400–450 million per annum overall. 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, and major, investment project that will increase our regular network investment programme is the phased roll-out of smart meters. Based on current projections, Alliander will be investing € 60–100 million a 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 by such means as ensuring a balanced repayment schedule, having a balanced investment plan, controlling operating costs, 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 current regulation methodology and the changes in the regulated tariffs in 2012, we expect, barring unforeseen and non-recurring developments, a stable operating profit in 2012 relative to 2011.

risk management and risk factors

3

transparency

Risk Management within Alliander

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

The main focus in the global economy in 2011 was on the financial crisis. The bank crisis, which has been ongoing since 2007 and has indirectly resulted in a (European) debt crisis, had only a limited financial impact on Alliander during the year under review. More information on this can be found in the section on financial risks below. The purpose of risk management is to reinforce the degree of assurance that the company is able to achieve 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. The guiding principle for Alliander remains its objective of transporting electricity and gas in a cost-efficient and socially responsible way.

Risk appetite

Our company is responsible for safeguarding the continuity of the electricity and gas networks, 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.

Alliander's financial risk appetite derives from its ability to bear financial risks and is determined annually. Together, our appetite for financial and non-financial risks creates a framework within which we work to achieve our corporate objectives.

The business units are expected to adhere to the following rules in order to control any risks relating to their business operations:

- Compliance with laws and regulations;
- 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;
- Adherence to the internal procedures and the Alliander Code of Conduct.

The Management Board is advised whether activities accord with the stated appetite for risk. Plans or activities that are not in line with our risk appetite are rejected, or amended before being approved.

Most important risks

Within Alliander's risk management process, risks are ranked at all management levels by means of an impact and probability analysis. The most significant risks identified in 2011 as having the potential to affect the achieving of Alliander's objectives and performance of its activities and those of its various business units are discussed below. These are based on the risks reported to the Management Board in Alliander's 2011 risk reporting. These quarterly risk reports discuss the risks of which Alliander's Management Board and its Supervisory Board's Audit Committee need to be aware in view of their impact or immediacy. The following table indicates how we view each risk and the measures we apply to control the risk.

Alliander bases its ranking of risks on the COSO II framework, an international risk management model used by many organisations. COSO II divides organisational objectives into four categories, based on the risks they entail (strategic, operational, financial and compliance).

Table 1 – Most important risks

COSO II category	Risk
Strategic	Energy transition
Strategic	Regulatory changes
Strategic	Reputation risk
Financial	Credit risk
Financial	Currency and interest risks
Financial	Liquidity and financing risks
Financial	Risks relating to US Cross-Border Leases
Operational	Occurrence of large-scale incident in the network or other assets
Operational	Occurrence of large-scale ICT incident
Operational	Shortage of technical staff
Operational	Data management (data quality, integrity and security)
Operational	Interruption minutes
Compliance	Compliance risks

Risks are periodically assessed as part of the group-wide risk management process. In this way new risks can be promptly identified and developments in existing risks monitored. The following table shows the status of risks reported in 2010 that no longer appear in this annual report. Although we continue to monitor these risks, they are no longer discussed in this year's report, either because their potential impact has decreased or the measures in place to control them have been reinforced.

Table 2 – Status of risks from 2010 annual report

Risk	Status
1. Strategic planning of staff resources	Measures to ensure the continuity of strategic and other staff planning have been strengthened. One aspect of this risk, being the shortage of technical staff, remained an issue in 2011.
2. Control over the process chains	Various initiatives in chain management and cooperation launched during the year under review to further reinforce control processes.

Strategic risks

We define strategic risks as uncertainties that can affect the achieving of our strategic objectives, as described in our mission and vision on page 10 and our strategy on page 11.

The most important strategic risks are discussed below.

Energy transition

Energy transition comprises the changing use of gas and electricity networks 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 networks. This is necessary as traditional grid security methods and power quality maintenance will no longer be sufficient if decentralised generation and feed-in continue to increase. New situational grid designs will therefore be needed to facilitate the changes.

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

Risk control measures

Alliander is very aware of the risk of being unable to meet all the expectations in respect of the changing role of the network operator. This is because energy transition is resulting in many changes, including adaptations to technical infrastructure; new roles in respect of customers and markets; substantial variations, both in time intervals and regionally, in the production and consumption of energy, and higher standards for safety, sustainability and spatial planning. These changes also involve many different risks: social, technological, economic and political change. Alliander is seeking to deal with the uncertainties surrounding energy transition by, for example, analysing scenarios and devising appropriate strategies, not only from a technological perspective, but also taking account of the effects of regulations and financial feasibility. It is also working to implement a flexible infrastructure, devise network structure plans and digitalise the networks. In itself, therefore, energy transition is not a risk, but rather a development that is already underway. Given the complex nature of the subject, Alliander is currently analysing the risks relating to energy transition and reassessing the position of this risk in its risk portfolio. The identified risk of 'Changing staff competencies' is seen within Alliander as a related risk.

Regulatory changes

Regulatory risks are risks relating to the regulatory framework of legislation and regulations within which Alliander operates. The majority of our activities are regulated. These activities primarily concern our network operations carried out within Liander and Endinet. The regulations pertain to electricity and gas connection and transportation services and electricity metering services for small-scale users. There is a risk that substantial regulatory changes relating to our tariffs will put pressure on our future income and consequently affect the extent to which we can fund future investments.

Risk control measures

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

- maintaining an ongoing dialogue with the government, both by proactive lobbying and by responding to regulatory developments in the field of network operations;
- controlling the regulatory risks at three levels, namely by means of scenario calculations, interpretation through expert judgement and contributing to the forming of opinions through proactive thought leadership;
- safeguarding data in the processes so as to ensure they are reliable and available at all times;
- availability of position papers representing our vision on developments;
- information exchange to increase regulatory awareness.

Reputation risk

As a company operating at the heart of society, it is vital for us to build and maintain good relationships with our surroundings. There is a risk that the reputation we have built up will be damaged by specific events, irrespective of whether it is within our power to influence them.

Risk control measures

The focus of our risk control measures in this respect is on preventing situations that could result in damage to our reputation. In practice, however, the possibility of occasional negative publicity can never be entirely ruled out. We see continuing to communicate clearly with our stakeholders and wider society as an important element of our corporate social responsibility. The control measures include:

- 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;
- Enforcement of good corporate governance and observance of codes of conduct and disclosure procedures;
- 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 negative impact on both Alliander and its stakeholders. More information on the financial risks and financial instruments can be found in note 34 in the financial statements.

Credit risk

Credit risk is the risk of incurring a loss because of a counterparty being 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 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 sets out in detail how we deal with credit risks.

The ongoing volatility in the financial markets prompted us to continue applying our tightened measures for controlling credit risks in 2011, while also continuing to devote extra attention to our investments, including those at financial institutions. We suffered no significant credit losses during the year.

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 involves positions in foreign currency being hedged, in conformity with the treasury charter. Currency positions and risks are hedged with external parties by means of forward transactions. We currently have no foreign subsidiaries with operating currencies other than the euro.

Interest risk

Interest rate risk is the risk that changes in 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 risk

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

Risk control measures

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

Risks relating to US Cross-Border Leases

In the years 1998-2000, various energy companies in the Netherlands, including Alliander, entered into cross-border leases (CBL) for networks. These are long-term, complex financial transactions with long durations and which have been structured so 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 cover the future payment obligations (lease instalments and amounts payable upon the possible exercise of the purchase option). The most important risk consists of 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. In addition, there is a credit risk on the banks, investment institutions and instruments that are involved in these transactions.

Risk control measures

This risk is carefully and proactively monitored, partly through a CBL Committee chaired by the CFO. A clear policy, primarily aimed at mitigating risks, has been set up for the cross-border leases.

Operational risks

Operational risks relate to the effective and efficient functioning of our business processes. We have a low tolerance for incidental risk resulting from the failure of operational processes. To the extent that insurance against such risks is available we have sought to mitigate certain risks by means of liability insurance and insurance against accidental damage.

Occurrence of a large-scale incident in the network or other assets

This is the risk that a large-scale incident will have an impact on essential parts of Alliander and cause 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 tightened control measures include accounting for the risk of disruption in the design of the energy networks, while further minimising the number of nodal points also limits the scale of any disruption.
We have drawn up an Alliander Crisis Plan setting out the structure of the crisis organisation and the upscaling phases in the event of a serious incident. We regard a crisis as a situation arising as a result of a major incident and having a potentially adverse impact on the group and

its customers, products, service and reputation. A crisis disrupts the normal operating procedures and can threaten the continuity of the group.

Occurrence of a large-scale ICT incident

A large-scale ICT incident involves the risk that essential parts of the information and communication infrastructure will become unavailable or malfunction owing 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 preventing ICT incidents and limiting any consequences of an incident. These control measures include setting up duplicate systems and maintaining two data centres at various locations. We have also strengthened our risk control by integrating a group-wide business continuity plan into our ICT services. In late 2010 we started a process designed to improve our business continuity provisions and to test the contingency plans in place. Contingency manuals for all critical applications have now been prepared, while from July 2011 onwards we also conducted successful contingency tests for various applications.

Shortage of technical staff

This is the risk that Alliander will be unable to fill technical positions of a critical nature. Competition in the market is also making it more difficult to recruit technically skilled staff.

Despite the current economic situation, the increasing shortage of technically skilled staff in the labour market is undeniable.

Risk control measures

Alliander has entered into alliances with various educational institutions and is also involved in various initiatives such as the ‘Labour Market 2.0’ scheme and ‘generation management’. A good example of the initiatives being undertaken by Alliander to secure sufficient knowledge, capacity and quality within its workplace and the sector as a whole is our Technical Training Centre in Haarlem, where new colleagues are being trained by our own technical specialists. Employees of other energy companies and intermediate vocational students are also welcome to attend courses here. Efforts are also being undertaken as part of the Watt campaign (www.watt.nl) to increase the energy sector’s profile in the labour market over a period of years.

Data management (data quality, integrity and security)

There is a risk that the quality of Alliander’s core processes will be compromised if measures to safeguard the quality, integrity and security of data in the organisation are inadequate and relevant data are missing, out-of-date or lack integrity.

Risk control measures

Alliander pays a great deal of attention to data management and efforts to improve the quality, integrity and security of its data. The various roles involved in the group’s data management were further reinforced in 2011, based on the data strategy. This involved assigning data ownership, along with the relevant responsibilities, to data owners. In order to supplement and standardise the Operating Assets Register it was decided in April 2011 to launch a five-year data improvement plan, alongside various measures such as actions to clean up our data. It was also decided during 2011 to establish the Alliander Security Committee to facilitate management of security on a group-wide basis, with data security being seen as part of our overall policy on security.

Electricity disruption minutes

This is the risk that the objectives for reducing disruption minutes will not be achieved. Alliander aims to achieve high levels of customer satisfaction and reliability of supply, and therefore devotes a great deal of attention to achieving its objectives for disruption minutes. Outage durations have fallen since the programme set up for this purpose started.

Risk control measures

Based on analyses at the end of 2010, various initiatives (including the disruption minutes programme) were launched in an effort to reduce the number of minutes in which supply was interrupted. One such initiative focuses on preventing excavation-related interruptions, while disruption detectors, which automatically report interruptions, have been placed at strategic points in the network.

Compliance risks

Compliance risks are risks relating to compliance with legislation and regulations.

Risk control measures

Changes in legislation 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. We aim to comply with legislation and regulations in all relevant areas, including safety, working conditions and sector arrangements with the Office of Energy Regulation.

On the subject of the smart meter we devised a number of risk control measures during the year that included a specific focus on data protection and privacy safeguards.

Risk management and internal control system

Alliander's risk management and internal control system is designed to identify and control risks. We accept risks that are an inherent part of our business, depending on their impact and their chance of occurring. Our risk management seeks to obtain a greater degree of assurance that we will be able to achieve our strategic objectives. It does not offer an absolute guarantee against the occurrence of risks, but ensures that risk management 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 aim to harmonise the risk management process and the internal control system as described below.

Internal control environment

The Management Board exercises proactive control in relation to risk management and internal control, corporate governance and ethics. The activities undertaken include:

- Evaluation, in meetings with the Management Board, of risks where the profile and impact exceed the individual business units;
- Periodic assessment by risk owners of the most important risks reported;
- Quarterly discussion by the Management Board of the Alliander Risk Report drawn up by the Risk Management Department.

On the basis of the information obtained in this way, the Management Board has continuous insight into current risks and the way in which they are managed and will apply any additional control measures required.

We are aware of our social and ethical responsibilities and strive to ensure that the entire group operates in accordance with the internal values and applicable legislation and regulations.

Relevant rules and guidelines are recorded in documents such as the Alliander Governance Manual, the Alliander Code of Conduct and the Whistleblower Policy. The latter two documents are publicly available via www.alliander.com.

Risk reports

The risk analyses and accompanying risk management activities reported by the business units are discussed in periodic meetings between business units and the Management Board. Business units are expected to assess their risk portfolio ('risk register') and make any adjustments needed. The Risk Management Department uses specific methods and techniques to support these analyses.

At the end of the year, the management of the business unit prepares an 'In Control Statement' indicating whether the unit has complied with the Corporate Governance manual and its internal control principles.

Alliander Business Control Framework

Alliander's Business Control Framework (BCF) is part of the corporate governance and internal control structure. The BCF supports reporting and tax compliance processes. The key controls aim to ensure reliable financial reports, as well as compliance with financial reporting legislation and regulations. In 2011 we started a project to set up a compliance control framework, along similar lines to those of the financial control framework. The ambition for 2012 is to complete this component of the governance structure and to reinforce the operational control framework.

Financial risk management

The financial risks relating to the use of specific financial instruments are primarily managed by the Treasury Department. Treasury identifies, evaluates and mitigates financial risks. The Risk Management Department advises Treasury on the risk profile of counterparties, sectors and countries by monitoring market developments and providing risk analyses and forecasts.

Treasury acts in accordance with Alliander's treasury charter, which contains the policy applying to fields such as currency risk, interest rate risk, credit risk and liquidity risk.

Monitoring the risk management framework

Alliander risk governance framework

We distinguish various lines of defence within the risk governance framework. Line management is the first line of defence. It carries primary responsibility for the management of risks within the normal conduct of our operations. Line management takes action aimed at identifying and controlling risks on a daily basis. The line organisation receives support from the second line of defence, being the corporate staff departments responsible for managing specific risks, such as the Safety, Environment and Quality Department, Legal Affairs for compliance with legislation and regulations, and the Compliance Department for compliance with the Electricity Act 1998 and the Gas Act.

Alliander's Risk Management Department also forms part of the second line of defence. This department is responsible for developing and implementing the group's risk policy and risk management framework. In addition, it supports management in setting out the strategy for managing risks. Lastly, as a third line of defence, the Internal Audit Department carries out its audit plan so as to form an independent view on the quality of the internal controls, including risk management. Outside Alliander, the external auditors and regulators can also alert the organisation to any risks coming to their attention.

Risk governance bodies

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

- The Risk Management Committee advises the Management Board on implementing and complying with the risk management policy in relation to corporate objectives. Its activities include assessing risk reports and the progress of action taken on audit recommendations;
- The Transaction Review Committee assesses applications for investments and divestments, acquisitions, major operational projects, and non-standard sales and purchasing contracts, as well as advising the Management Board on these issues;
- The Cross-Border Lease Committee (CBL Committee) provides the Management Board with information and advice on CBL issues. Its purpose is to ensure that CBL decisions are in accordance with the policy and strategy, and to regularly determine the CBL-related strip risk and the credit risk on banks and investment instruments;
- The Internal Audit Department monitors how the risk management framework and internal control system are functioning by initiating and performing audits, and making recommendations based on its findings;
- The Disclosure Committee supports the company's management in fulfilling its responsibilities for 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 business activities, as well as the design and effectiveness of Alliander's internal risk management and control systems.

Lastly

The 'In Control Statement' in respect of the financial reporting pursuant to best practice provision II.1.5 of the Dutch Corporate Governance Code can be found on page 77.

corporate governance

As a large company playing an important role in society in the field of energy supply, Alliander attaches great importance to the principles of good corporate governance, such as integrity, accountability and transparency, and aims to maintain an open dialogue on this subject with all its stakeholders. Although the Dutch Corporate Governance Code ('the Code') does not formally apply to Alliander, the company applies the code on a voluntary basis.

Legal framework applied by Alliander in accounting for Corporate Governance

	Applicability	Application by Alliander
Corporate Governance Code[1]	Applies to companies whose shares are listed on the stock exchange.	Voluntary application: Alliander voluntary includes the information in its annual report.
Decree on Corporate Governance (2009)[2]	Applies to companies whose shares or debt instruments are listed on the stock exchange, with less stringent provisions applying to companies whose shares are not listed.	Mandatory application: Alliander includes the parts of the Decree with which it is required to comply in its annual report.
Transparency Directive	Applies to companies whose shares or debt instruments are listed on the stock exchange.	Mandatory application: Alliander has to compile an annual and interim report on time and in accordance with the requirements of the Transparency Directive.

1 The Corporate Governance Monitoring Committee ('Frijns Committee') published the amended version of the Dutch Corporate Governance Code on 10 December 2008. By order in council on 10 December 2009, the legislator designated the updated Code ('Frijns Code') to be the new code of conduct within the meaning of Article 391.5 of Book 2 of the Dutch Civil Code and, therefore, to replace the original version of the Code ('Tabaksblat Code'), which had applied since 2004. The Frijns Code came into force on 1 January 2009; the full text of this Code can be found on www.commissiecorporategovernance.nl.

2 The 'Decree of 20 March 2009 amending the Decree of 23 December 2004 and adopting further regulations regarding the contents of the annual report, in implementation of Directive 2006/46/EC of the European Parliament and of the Council of 14 June 2006, and amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and consolidated accounts' came into force on 1 April 2009 (Government Gazette 2009, 154).

Legal structure of Alliander

Alliander N.V. is a public limited liability company and subject to the rules for large companies ('structuurregime'). As such, Alliander has a two-tier board structure consisting of a Management Board and a Supervisory Board. All the company's shares are held directly or indirectly by Dutch provinces and municipalities.

We follow developments in the field of corporate governance very closely. On 31 May 2011 the Upper House passed the Bill to amend Book 2 of the Dutch Civil Code in respect of the rules applying to management and supervision of public and private limited liability companies ('Wet bestuur en toezicht'). The Act includes provisions to limit the number of management and supervisory board directorships (or other supervisory positions) permitted to be held in large entities, as well as amending the rules on conflicts of interest. The Act is expected to come into force on 1 July 2012. If required by the new legislation, Alliander will amend its Articles of Association accordingly.

Outline of Corporate Governance Structure

General

The Supervisory Board and Management Board are responsible for Alliander's Corporate Governance and for ensuring compliance with the Code. They are accountable in this respect to the General Meeting of Shareholders. There were no significant changes in the governance structure during the year under review. Any future substantial change in Alliander's Corporate Governance structure or in its compliance with the Code in the future will be included as a separate item on the agenda for discussion at the General Meeting of Shareholders. Alliander's governance structure is based on Book 2 of the Dutch Civil Code, the company's Articles of Association, the charters of the Management Board, the Supervisory Board, the Audit Committee and the Selection, Appointment and Remuneration Committee, the Alliander Code of Conduct and a whistleblower policy. These documents are publicly accessible on www.alliander.com under Corporate Governance.

Code of Conduct and whistleblower policy

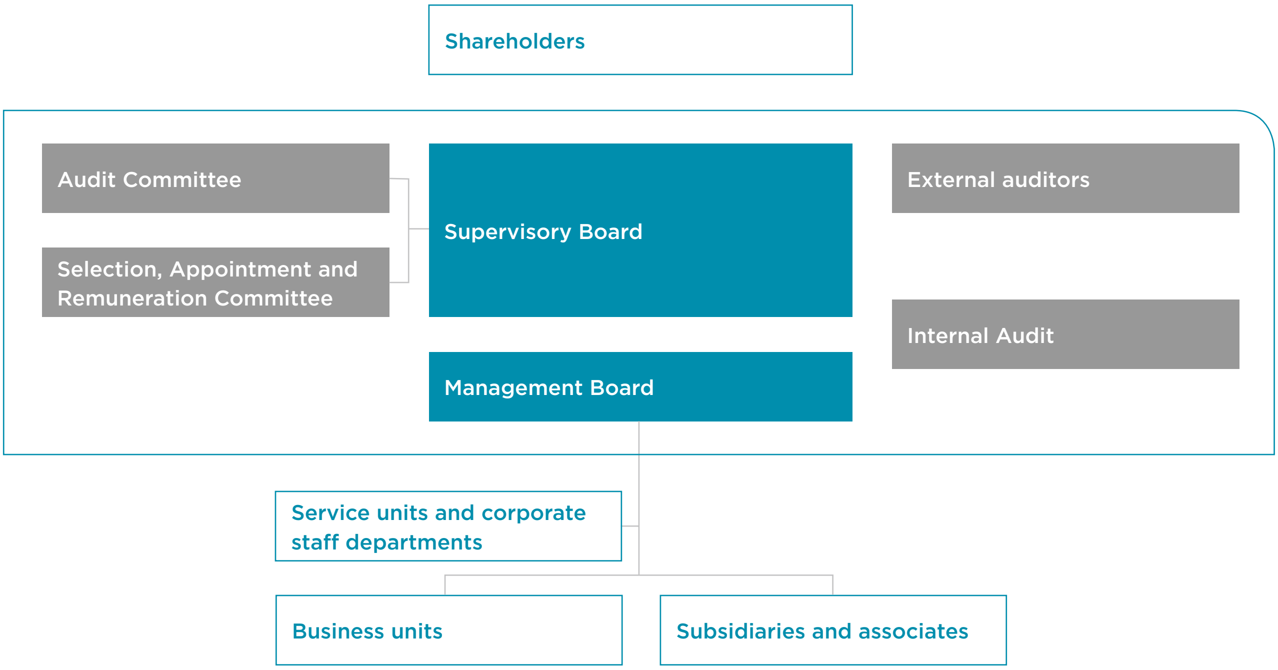
Alliander is aware of its social responsibilities and strives to ensure that the entire company operates in accordance with the applicable legislation and regulations and the Code, while also taking account of social and ethical standards. In addition to complying with legislation, Alliander also imposes additional standards on itself in order to be assured of doing business with integrity. These standards are set out in the Code of Conduct, which applies to all permanent Alliander employees and any other people engaged at Alliander. The Code of Conduct includes details of how we deal with our business partners, commercial and personal interests, company property, confidential and other corporate information, safety and behaviour towards each other within Alliander. Alliander's employees have to comply with the Code of Conduct. This Code and the accompanying documents (the Research Protocol and Sanctioning Guideline) provide Alliander with instruments for taking measures to counteract undesirable behaviour.

A total of 29 possible violations of the Code of Conduct were reported in 2011. Every report is investigated by the Internal Audit Department. These investigations regularly result in sanctions, with the ultimate level of punishment being determined by the specific facts and circumstances of the case. The measures that may be imposed are detailed in the Sanctioning Guideline and include a written warning, a reprimand, suspension or dismissal. Measures in this list were applied on eight occasions in 2011 in respect of our own staff, and on seven occasions in respect of staff recruited externally.

In addition to the Code of Conduct we also operate a whistleblower policy. Our whistleblower policy is primarily intended to enable external stakeholders and other parties to report any wrongdoing. Alliander also encourages its own employees to report any instance of actual or suspected wrongdoing of a general, operational or financial nature. This can be done anonymously and without any adverse impact on the employee's legal position. The whistleblower policy was invoked on four occasions (from within Alliander) in 2011.

Governance structure

The governance structure of Alliander is as follows:



Management Board

The Management Board is in charge of managing Alliander. The Management Board is responsible for, amongst other things, the realisation of Alliander's objectives, the strategy and 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 responsible for managing the company, although certain tasks and responsibilities for business units and operating areas have been assigned to individual members of the Management Board. 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 remuneration of the Management Board members is determined by the Supervisory Board, based on the remuneration policy adopted by the General Meeting of Shareholders. More information on the remuneration policy can be found in the Remuneration Report starting on page 86.

The Supervisory Board determines the number of members of the Management Board. In 2011, the Management Board consisted of two members. More details of the members of the Management Board can be found on page 9. 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. The Works Council is given the opportunity to advise on a proposed appointment or dismissal of a member of the Management Board. The Supervisory Board will consult the General Meeting of Shareholders on any proposed dismissal of a member of the Management Board.

Details of all transactions involving a possible conflict of interest for a member of the Management Board have to be published in the annual report. Under the Code, any such transactions have to be conducted on terms and conditions that are usual for the sector. No transactions that could be regarded as involving possible conflicts of interest were conducted in 2011. The Management Board charter also includes provisions to prevent any such conflict of interest.

Supervisory Board

The three most important tasks of the Supervisory Board are to supervise, advise and act as the employer of the Management 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 and serves as a sounding board for the Management Board.

The Supervisory Board's responsibilities as the employer of the Management Board include determining the size, composition and structure of the Management Board, appointing and dismissing members of the Management Board and determining the terms and conditions of their employment.

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 rules governing the composition of the Board, as well as its tasks, powers, meetings and decision-making.

The remuneration of the Supervisory Board is determined by the General Meeting of Shareholders and is not dependent on the results of Alliander. More information on the remuneration can be found in the Remuneration Report on page 90.

The Supervisory Board consists of at least three and at most seven members. In 2011, the Supervisory Board had seven members. Details of the current members of the Supervisory Board can be found on page 84. 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; this means that the Supervisory Board will nominate a person recommended by the Central Works Council or the General Meeting of Shareholders unless the Supervisory Board objects to the recommendation, either because it expects the recommended person to be unsuitable for performing the tasks of a member of the Supervisory Board or because the Supervisory Board will not be properly constituted if the recommended person is nominated.

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 for 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 and any changes in the profile are discussed by the Supervisory Board at the General Meeting of Shareholders and with the Central Works Council.

It has been agreed that members of the Supervisory Board will retire periodically by rotation in accordance with a schedule that is designed to prevent too many members retiring at the same time. Members of the Supervisory Board may be appointed for a maximum of three periods of four years. Application of the schedule may result in divergence from the normal four-year period for appointment in some cases. The general principle is 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. A report on each committee meeting is prepared for discussion at a Supervisory Board meeting and used as the basis for decision-making by the whole Board.

The Audit Committee is responsible for preparing the Supervisory Board's decision-making on its supervision of the Management Board with regard to, for example, internal risk management control systems, annual and interim reporting and the financing of activities. Issues such as tax planning and the risk control measures applying to information and communication technology are also included in the Audit Committee's remit.

The Selection, Appointment and Remuneration Committee is responsible for preparing the Supervisory Board's decision-making on the composition of the Supervisory and Management Boards and on appointments and reappointments to these Boards. Its responsibilities also include making proposals for the remuneration policy applying to members of the Management Board, as well as proposals for remunerating the individual members of the Management Board. This committee also prepares the Remuneration Report.

The rules on the composition, tasks, powers and procedures of the committees are laid down in charters.

Details of all transactions involving a possible conflict of interest for a member of the Supervisory Board have to be published in the annual report. Under the Code, any such transactions have to be conducted on terms and conditions that are usual for the sector. No transactions that could be regarded as involving possible conflicts of interest were conducted in 2011. The Supervisory Board charter also includes provisions to prevent a conflict of interest.

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

General Meeting of Shareholders

Alliander organises a General Meeting of Shareholders within four 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 Management Board consider necessary. One or more shareholders representing at least ten per cent 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. The agenda for the meeting and explanatory information are published on Alliander's website. 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 may attend 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 and the members of the Supervisory Board;
- adopt the remuneration policy for the Management Board 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 that result in an important change to 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, this Committee also has various other powers relating to the appointment and dismissal of members of the Management Board. More information on the activities of the Committee of Shareholders can be found in the section entitled 'Other' in this annual report.

External auditors

The external auditors, PricewaterhouseCoopers Accountants N.V., are entrusted with auditing the consolidated annual financial statements of Alliander and the statutory annual financial statements of its subsidiaries.

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 their report on the financial statements to be submitted to the General Meeting of Shareholders for adoption is discussed, 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 role and provides the Management Board and Alliander's management 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 items are for example the reliability and integrity of information provided (including the financial reporting), the effectiveness of decision-making, the effectiveness and efficiency of business processes and compliance with legislation, 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. Twice a year Internal Audit reports via an in control report on how the audit findings have been followed up. This report is also sent to and discussed with the Audit Committee. Internal Audit works closely with the external auditors both in this respect and for the purposes of planning and performing the annual audit.

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 attends Audit Committee meetings.

Compliance with the Code in 2011

Best practice provisions not applying to Alliander

A number of best practice provisions do not apply to Alliander as it is a Dutch public limited liability company with all its shares held directly or indirectly by (lower) public authorities and it is subject to the rules for large companies ('structuurregime') as laid down in the Dutch Civil Code. As such Alliander has a two-tier model, where the Management Board and the Supervisory Board are two separate bodies. 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. The following best practice provisions are consequently 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 (issuance of depositary receipts for shares);
- IV.3.11 (list of existing anti-takeover measures in annual report);
- IV.4.1 to IV.4.3 (institutional investors).

Departures from the Code

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).

II – Management Board

Code	Departure and reason for departure
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

Code	Departure and reason for departure
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

Code	Departure and reason for departure
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% of issued capital) 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.
Best practice provision IV.3.1: 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.

Corporate Governance Statement

This is a statement concerning Corporate Governance as described in Article 2a of the Decree on Additional Requirements for Annual Reports [Vaststellingsbesluit nadere voorschriften inhoud jaarverslag] ('the Decree'), which came into force on 1 January 2010.

The information required to be included in this Corporate Governance Statement as referred to in Article 3a(a) of the Decree, being the main features of Alliander's management and control systems relating to its financial reporting, can be found in the 'Risk Management and Risk Factors' section and is deemed to be incorporated and repeated in this statement.

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 systems. We evaluated the design and operation of the risk management framework in 2011, based in part on 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 2011 and of the business during the 2011 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 on pages 62 to 68.

Arnhem, 7 March 2012

Management Board
Peter Molengraaf, chairman
Mark van Lieshout, member

report of the supervisory board

The task of the Supervisory Board is to supervise the policy of the Management Board and the general progress of business within Alliander. In addition the Supervisory Board acts as a sounding board for the Management Board. In Alliander's two-tier board structure the Supervisory Board is a separate body operating independently of the Management Board. In this report we account for how we performed our tasks and responsibilities during the year under review.

Composition of the Supervisory Board

There were no changes in the composition of the Supervisory Board in 2011. Franswillem Briët and Jos van Winkelen resigned by rotation in 2011 and were both eligible for reappointment. On 12 May 2011 the General Meeting of Shareholders resolved to reappoint both of them for a further period of four years. The first period for which Ada van der Veer-Vergeer was appointed will expire in 2012, as will the third period for which Bea Irik was appointed. Both are eligible for reappointment at the General Meeting of Shareholders in 2012: Ada van der Veer-Vergeer for a second period of four years, and Bea Irik for a final period of one year. The vacancy arising as a result of Bea Irik's resignation will be subject to the enhanced right of recommendation available to the Central Works Council.

The Supervisory Board consisted of the following seven members in 2011:

Name	Date of appointment	Reappointed	End of current term	Committees
E.M. d'Hondt (Chairman)	30 June 2009		2013	Member of Selection, Appointment and Remuneration Committee
G. Ybema[1] (Deputy Chairman)	25 April 2005	2009	2013 († 15 February 2012)	Member of Audit Committee
F.C.W. Briët	30 June 2009	2011	2015	Chairman of Selection, Appointment and Remuneration Committee
Ms J.B. Irik[1]	8 June 2001	2004 and 2008	2012	Member of Selection, Appointment and Remuneration Committee
Ms J.G. van der Linde	29 October 2009		2013	Member of Audit Committee (from 24 March 2011)
Mrs A.P.M. van der Veer-Vergeer	30 June 2009		2012	Member of Audit Committee
J.C. van Winkelen	30 June 2009	2011	2015	Chairman of Audit Committee

1 Already member of Supervisory Board of n.v. Nuon (since renamed Alliander N.V.).

We are sad to report the death on 15 February 2012 of Gerrit Ybema, a member and also deputy chairman of the Supervisory Board. Gerrit devoted substantial time and energy to ensuring a solid financial strategy for our company. Gerrit Ybema was known for his positive view on life and his determination to find solutions in every situation. He combined a sharp insight with his broad-ranging experience in society. He made a valuable contribution to our company, both before and after the unbundling of the production and supply company.

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 53 to 68.

All the members of the Supervisory Board were independent within the meaning of the Electricity Act 1998 and the Gas Act, with the exception of one member who is a member of the Supervisory Board of a company involved in prospecting for, extracting and transporting oil and gas. None of the members has any direct or indirect link with any organisational entity involved in generating and/or supplying and/or trading 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 the 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 2011. Neither were any transactions conducted between the company and natural or legal persons holding at least ten per cent of the shares in Alliander.

Meetings of the Supervisory Board

The Supervisory Board met on eight occasions in 2011, with seven of these meetings being in accordance with an agreed schedule and one extra meeting being arranged to discuss the 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, with one exception, were attended by the full Management Board. Mr J. Reezigt, Director of General Affairs, and Ms M.M.A. de Bliek, Manager of the Corporate Secretariat, act as 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 results for the 2010 financial year and for the second half of the year were discussed in early February. Attention was also devoted at that meeting to satisfaction rates among employees and customers, while the Operations Director provided more information on the position in respect of operational excellence and the 'Disruption Minutes Reduction' programme within Alliander.

The meeting towards the end of March focused primarily on the results and annual report for the 2010 financial year, including the auditors' report and the proposal for profit appropriation. The external auditors attended the discussion of the financial statements for 2010.
The discussion of risk management included discussion of the Management Board's assessment of the design and effectiveness of Alliander's internal risk management and control systems. Risk control measures and management are becoming increasingly prominent issues, not least because of the financial crisis and stricter legislation. As a result, the subject of financial reporting and internal management and control were discussed in depth, both by the Supervisory Board as a whole and by the Audit Committee in particular.
The variable remuneration of the members of the Management Board was adopted on the basis of the short- and long-term objectives achieved, while the objectives for the short-term (2011) and long-term (2011-2013) variable remuneration for the members of the Management Board were also set. In addition, the Supervisory Board appointed Coby van der Linde as a member of the Audit Committee from 24 March 2011.

At the meeting in late April the HRM Director provided the Supervisory Board with information on the management development policy within Alliander.
Attention was also devoted to the 'Grid of the Future' report, in which the Dutch network companies discuss the impact of sustainability on the gas and electricity networks. It was concluded that various developments, including the reduction in gas consumption and investments in networks, were surrounded by uncertainties. There are also some other uncertainties, such as the EU climate objectives, as well as the political world and developments in the field of innovation.
The Board also discussed the internal report for the first quarter of 2011 and analysed the network operators' gas and electricity disruption figures for 2010.

The remuneration policy applying in respect of members of the Management Board's ancillary activities was adopted in early May, while the shareholder circular and accompanying information were also discussed in preparation for the annual General Meeting of Shareholders on 12 May 2011.

In early June the Supervisory Board and Management Board scheduled an extra meeting for an in-depth exchange of thoughts on updating the strategy. The updated strategy is based on two pillars: the increasing role of sustainability in the energy supply, and the increase in fixed costs as a result of digitalisation of the networks. Various growth scenarios were discussed during the meeting, including the possibility of intensive forms of cooperation with other network companies. The Supervisory Board supports the updated strategy. The Supervisory Board also approved the Management Board's proposal not to sell the stake of 25.4% in the energy consultants N.V. KEMA for the time being.

The meeting in mid-August focused on the interim results for 2011, including the external auditors' report on the 2011 interim report. The external auditors attended the discussion of the interim results for 2011. This included discussion of cost control and developments in staffing. The programme manager of the Transition Team also provided the Supervisory Board with updated information on the progress of leadership development and achieving cultural change within Alliander.

In late October the Board discussed the internal report for the third quarter of 2011. The HRM Director explained the main aspects of Alliander's HRM policy. The Management Board's decision to launch a tender to buy back € 250 million of the bonds due to mature in 2014 and 2016 was approved. The consequences of the amendment of Book 2 of the Dutch Civil Code in respect of the rules applying to management and supervision of public and private limited liability companies ('Wet Bestuur en toezicht'), which is expected to come into force on 1 July 2012, were also discussed.

At the final meeting in the regular cycle, which was held in mid-December, the Board discussed the 2011 management letter from the external auditors. As a result of the rise in the number of incidents associated with absenteeism within the group, the Board discussed ways of increasing employees' safety awareness. The information provided to the Supervisory Board and the internal control issues requiring attention were also discussed. In addition, the Supervisory Board approved the year plan for 2012 and the resolution to buy a put option and issue a call option for the potential bidder for KEMA. Alliander will, however, remain a KEMA shareholder for the time being.

Meetings	Number
Supervisory Board	8
Audit Committee	7
Selection, Appointment and Remuneration Committee	4

Meetings of the Audit Committee

In 2011, the Audit Committee consisted of Jos Van Winkelen (chairman), Gerrit Ybema, Ada Van der Veer-Vergeer and Coby van der Linde (from 24 March 2011). The composition of the Audit Committee is in accordance with the provisions of the Dutch Corporate Governance Code. The Committee met on seven occasions in 2011, with meetings being attended by the CFO, the Internal Audit Director and the Corporate Control Manager. Six of these meetings were also attended by the external auditors. The Audit Committee also held a meeting with the external auditors that was not attended by the Management Board.

As usual, the Audit Committee discussed the following subjects during the year: the annual report and financial statements for 2010, the proposed profit appropriation, the auditors' report for the 2010 financial year, the quarterly and interim figures for 2011, reports from the internal and external auditors, the internal and external audit plan for 2011, the 2012 year plan, the management letter for 2011, the sufficiency of the internal risk management and control systems, the effectiveness of the risk management measures, the tax strategy, the funding of the company, managing the risks of information and communication technology and the performance and independence of the external auditors.

The Audit Committee devoted specific attention to a number of issues during the year, usually in the presence of the relevant business managers. These included the funding of the company. The Committee also devoted considerable attention to Alliander's risk assessment and management, specifically in respect of the cross-border lease obligations. The investment procedures and plans, together with the periods for depreciating assets, were also considered at length.

The Audit Committee also looked back at the acquisition in 2010 of the network company Endinet, based on the due diligence report carried out by the Internal Audit Department.

The Audit Committee discussed the 'Risk Management and Risk Factors' section in this annual report in detail. More information on the most important risks can be found in that section.

As part of Alliander's social reporting responsibilities the Audit Committee discussed social developments that may result in a broader requirement for assurance (both in terms of financial and non-financial information). The Audit Committee reported its findings and advice on the matters mentioned before to the Supervisory Board.

The Audit Committee believes it was able to maintain constructive relationships with the external auditors, management of the Internal Audit Department and the Management Board in the year under review.

Meetings of the Selection, Appointment and Remuneration Committee

In 2011, the Selection, Appointment and Remuneration Committee consisted of Franswillem Briët (chairman), Ed d'Hondt and Bea Irik. The composition of the Committee is in accordance with the Dutch Corporate Governance Code. The Committee met on four occasions during the year, 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 Management Board members were achieved in 2010, 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 2011 and for the long-term variable remuneration for the period 2011 - 2013. The Committee compared the total remuneration package for Alliander's Management Board with two employment market reference groups ('peer groups'), with the benchmark confirming that Alliander provides a responsible level of remuneration.

In addition, the Selection, Appointment and Remuneration Committee – as requested by the shareholders – reconsidered the remuneration paid to members of the Supervisory Board and submitted a proposal in this respect to the Board. The Supervisory Board adopted this proposal, which was subsequently put to the General Meeting of Shareholders on 12 May 2011 and approved.

The Selection, Appointment and Remuneration Committee compiled the Remuneration Report, as well as devoting attention to management development in respect of senior and executive positions and holding talks with both members of the Management Board to discuss their performance.

The Bill regulating top salaries in the public and semi-public sectors [Wetsvoorstel Normering bezoldiging topfunctionarissen publieke en semi-publieke sector] was also discussed in depth. Depending on progress in the Upper House, this legislation is expected to come into force on 1 January 2013. More information on the legislation can be found in the Remuneration Report included in this annual report.

During the year the Committee held several meetings with shareholders and their representatives to discuss the remuneration of the Supervisory Board, along with the objectives and level of the variable remuneration of members of the Management Board.

The Selection, Appointment and Remuneration Committee did not use any external advisers in 2011.

Annual assessment of performance

In October 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.

The first conclusion was that the points that had been identified in the previous assessment as requiring attention had since been followed up. Attention had been paid, for example, to the development of leadership and organisational culture. It had also been decided to hold a regular meeting of the Supervisory Board, without the Management Board, immediately before the joint meeting and to arrange a study morning.

In preparation for the self-assessment, the Supervisory Board members were each sent an extensive questionnaire, the results of which were summarised and used as the basis for the self-assessment. The questionnaires give good insight into the Supervisory Board members' views on the performance of the Board as a whole and the members and the chairman individually. The members were found largely to be in agreement with each other, which meant there was no need for extensive discussions. The process was generally regarded as satisfactory. Against this background, the assessment was largely of an informal nature. The basic principle was that the primary focus should be on the performance of the Supervisory Board and the Management Board as a whole, while the performance of the individual members of the Supervisory Board was primarily a bilateral matter between the chairman and the relevant member of the Supervisory Board and should only be discussed by the full Board if there was a good reason for doing so.

As for the relationship between the Supervisory Board and Management Board, the Supervisory Board gave broad support for the performance of the members of the Management Board, although expressed serious concerns about the adverse consequences of the Bill regulating top salaries in the public and semi-public sectors. By making it more difficult to attract senior and executive managers in the public and semi-public sectors, this Bill constitutes a risk for business operations in the longer term.

Consideration was given to training and development for the individual members of the Management Board, while the desired size of the Management Board was also examined in the light of various prominent aspects of the operations. In line with developments in the field of Corporate Governance, the management structure at the top of the group and succession planning were also discussed in more detail than in the past.

The Supervisory Board spent time discussing various issues relating to its own performance, including the expertise of the members, the growing significance of IT (resulting in an increasingly knowledge-intensive network company) and more robust consideration of the core business. The Supervisory Board would also like more attention to be devoted to topics such as decentralised generation, energy transition, competition, the structure of the sector, the policy on investment and depreciation, the quality and quantity of staff development, compliance and the relationship with and position of shareholders. Lastly, the Supervisory Board is in favour of meeting at different locations so as to get to know the company better.

The general conclusion was that the Supervisory Board is performing well, while a greater focus on a limited number of core topics during Supervisory Board meetings and tighter management would be appreciated.

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. The Supervisory Board realises the importance of understanding what matters to the provinces and municipalities holding shares in Alliander and of sufficiently broad-ranging support for the company's strategy and policy.

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 have established a general policy on bilateral and other contacts with shareholders. This policy is published on Alliander's website.

Almost all the members of the Supervisory Board attended the annual General Meeting of Shareholders on 12 May 2011.

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 2011, 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 the New Way of Working, energy transition, the learning organisation and cultural change.

Main points of the remuneration policy

The remuneration policy is designed to enable Alliander to recruit, motivate and retain qualified and expert directors. The remuneration policy is straightforward and transparent, and the performance criteria for the variable remuneration reflect the interests of all the company's stakeholders. The remuneration structure is designed to optimise the balance between short-term results and longer-term objectives. The remuneration package of the Management Board members comprises a gross base annual salary, a short-term variable remuneration component, a long-term variable remuneration component, a pension and certain other elements. Full details of the remuneration policy can be found in the Remuneration Report.

Financial statements, dividend proposal and discharge

As required by the Articles of Association, the Supervisory Board will submit the financial statements compiled by the Management Board to the General Meeting of Shareholders for adoption. The financial statements for 2011 have been audited and approved by PricewaterhouseCoopers Accountants N.V., whose unqualified opinion is included on page 158 in this report.

The Audit Committee discussed the financial statements at length with the CFO and the external auditors. The annual report was 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 this report meets the requirements for transparency and forms a good basis for the Supervisory Board to account for its supervision during the year. In conformity with the obligation contained in Article 2:101 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 2011, including the proposed profit appropriation;
- adopt the dividend proposal for 2011 of € 113.0 million;
- discharge the members of the Management Board for their management in 2011;
- discharge the members of the Supervisory Board for their supervision in 2011.

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 commitment in 2011.

Arnhem, 7 March 2012

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

members of the supervisory board

Ed d'Hondt

Gerrit Ybema († 15 February 2012)

Ada van der Veer

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 B.V.
- 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 - 2012)

Dutch, first appointment: 25 April 2005

Current term ends in: 2013 († 15 February 2012)

Alliander committees: Member of Audit Committee

Profession/Chief position: Director of Ybema Economy Solutions

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

Relevant ancillary positions:

- Member of Supervisory Board of ARCADIS N.V.
- Supervisory Board Chairman of Stichting Zorggroep Noorderbreedte
- Supervisory Board Chairman of NHL Hogeschool Leeuwarden
- Supervisory Board Chairman of Stichting Zorg Innovatie Forum

Members

F.C.W. Briët (1947)

Dutch, first appointment: 30 June 2009

Current term ends in: 2015

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 Nederland B.V.

Relevant ancillary positions:

- Supervisory Board Chairman of Coöperatie Bloemenveiling FloraHolland U.A.
- Member of Supervisory Board of Monuta Holding N.V.
- Board Chairman of Stichting Pensioenfonds van de Metalektro (PME)
- 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

Coby van der Linde

Jos van Winkelen

Bea Irik

Franswillem Briët

Previous relevant position: Councillor (Utilities) at Municipality of Amsterdam
Relevant ancillary positions: Supervisory Board Chairman of Stichting CentraM

Prof. J.G. van der Linde (1957)

Dutch, first appointment: 29 October 2009
Current term ends in: 2013
Alliander committees: Member of Audit Committee
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 Nederland B.V.
- Member of Advisory Council of Rotterdam Climate Initiative
- Member of International Advisory Council of KAPSARC

J.C. van Winkelen (1945)

Dutch, first appointment: 30 June 2009
Current term ends in: 2015
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 Technology
- Adviser to Hak N.V.

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
Previous relevant positions:

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

Relevant ancillary positions:

- 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
- Adviser for National Register of Supervisory Directors and Regulators
- Board Member of Stichting Preferente Aandelen Nedap

remuneration report

In the Remuneration Report the Supervisory Board accounts for the implementation of Alliander's remuneration policy. The report provides information on the current remuneration of Alliander's Management Board and a description of how this policy was implemented in 2011, as well as details of the remuneration of the Supervisory Board members in 2011. The report ends with a brief preview of 2012.

In accordance with Alliander's Articles of Association, the remuneration of the Management Board members is determined by the Supervisory Board, following a proposal by the Selection, Appointment and Remuneration Committee. The General Meeting of Shareholders adopts the policy on remuneration. Within the framework of this policy the Supervisory Board determines the remuneration and other terms of employment of the Management Board members, again following a proposal by the Selection, Appointment and Remuneration Committee.

The present remuneration policy was adopted in 2004 by the General Meeting of Shareholders and subsequently amended in 2006. The remuneration policy for the Management Board remained unchanged in 2011. Any proposed changes in the remuneration policy will be put to the General Meeting of Shareholders for approval, while also simultaneously being submitted to the Central Works Council for information purposes.

Alliander's remuneration policy, including the remuneration and other terms of employment of the Management Board, is almost wholly in line with the Dutch Corporate Governance Code, with explanations being provided in the event of any departures.

Remuneration policy

Basic principles

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. In order to adhere to these basic principles, remuneration levels have to be in line with those at comparable organisations. The Selection, Appointment and Remuneration Committee periodically, therefore, assesses the overall Management Board remuneration package, consisting of the base annual salary, the short- and long-term variable remuneration, the annual pension contribution and other remuneration elements. The assessment in 2011, for which two reference groups ('peer groups') were defined, found there to be no need to amend the remuneration package.

One of the reference groups comprises companies with a core task in the public sector of managing the Dutch energy grids[1], while the other comprises companies with comparable levels of revenue and complexity[2]. The remuneration policy is geared to maintaining remuneration at the median of the reference groups. In addition to the remuneration data of the reference groups, research documentation from various remuneration consultants is also used.

As well as looking at external relationships, account is also taken of remuneration relationships within the organisation, with the intention being to ensure that the structure and level of the Management Board's remuneration package remains fair and appropriate in comparison with other groups of Alliander employees.

1 Reference group I comprises Enexis, Stedin, TenneT and Gasunie.
2 Reference group II comprises Port Authority of Rotterdam, TNT, Imtech, Dutch Railways, Schiphol, Connexxion and Grontmij.

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 benefits.

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 performance criteria to which the short- and long-term variable remuneration components relate are derived from the most important objectives (financial, operational and those reflecting Alliander's role in society) used in managing the company. The short-term objectives reflect the key performance indicators as defined in the year plan and included in the corporate dashboard, while the long-term targets reflect the company's longer-term objectives, as detailed in the multi-year business plan. The specific objectives applying to the Management Board's short- and long-term variable remuneration are recorded annually in a scorecard.

The performance criteria and their mutual relationships are defined and adopted annually. The Selection, Appointment and Remuneration Committee defines the performance criteria and the weightings in consultation with the Management Board. These are then adopted by the Supervisory Board. Progress is monitored throughout the year. After assessment of the performance of the past year, on the recommendation of the Selection, Appointment and Remuneration Committee, the Supervisory Board determines the extent to which the Management Board members have achieved the defined objectives. Lastly, the Supervisory Board analyses the possible results of the variable remuneration components and their consequences for the Management Board members' remuneration.

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.

Internal Audit verifies the achievements on the scorecard before the level of the variable element of the Management Board members' remuneration is adopted. The input used for this purpose includes the financial statements audited by the external auditors, together with measurements performed by independent external parties such as KEMA. The variable remuneration is paid after the General Meeting of Shareholders has adopted the financial statements for the year to which the targets relate.

The Supervisory Board is entitled to claw back any variable remuneration paid on the basis of incorrect financial or other information. It 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').

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 operated through Stichting Pensioenfonds ABP. Since 1 January 2004, this has consisted entirely of an average pay scheme, with a target 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 to participate in the scheme.

e. Other benefits

In addition to the social security charges paid by the company, Management Board members are entitled to a health insurance contribution, an expense allowance and 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 must be reported to the chairman of the Supervisory Board. Any remuneration for ancillary positions performed pursuant to membership of Alliander's Management Board accrues wholly to the company.

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 interests 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 relevant provisions in the individual employment contracts. 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 2011

a. Annual gross base salary

The employees covered by the collective labour agreement for network companies received a salary increase of 1.5% with effect from 1 July 2011, while the base salary of members of the Management Board also rose by 1.5% on the same date.

In 2011, Mr Molengraaf's base salary amounted to € 223,000 (including an 8% holiday allowance), while Mr Van Lieshout's base salary for the same period amounted to € 210,000 (including an 8% holiday allowance).

b. Short-term variable remuneration

The objectives set for 2011 were a combination of financial objectives, customer-related objectives and objectives relating to corporate social responsibility. In contrast to 2010 it was decided to use net income after tax (NIAT) rather than earnings before interest and tax (EBIT) because, as an independent company, Alliander is also responsible for its funding and tax planning. Switching to NIAT is, therefore, logical as this also includes interest income/expense and tax. In addition, we added the objectives of 'Fully equipping various substations with SAS sensor technology' and 'Giving customers insight into potential energy savings' in view of our strategic objectives and given the role our activities play in society and their effects on the environment and society. Lastly, we added a new objective of 'Women in management positions' to reflect Alliander's aims in respect of diversity.

Objectives for short-term variable remuneration in 2011

Financial (40% weighting)

- net income after interest and tax
- net operating expenditure
- number of substations fully equipped with SAS sensors

Customers (30% weighting)

- customer satisfaction levels in the consumer market
- customer satisfaction levels in the business market
- customer insight into potential energy savings

Corporate social responsibility (30% weighting)

- employees at a disadvantage on the labour market
- employee survey
- women in management positions

Based on the extent to which the objectives were achieved, the short-term variable remuneration for Messrs Molengraaf and Van Lieshout in 2011 came out at 85% of the maximum of 30% of their annual gross base salary.

c. Long-term variable remuneration

The objectives for 2009 - 2011 are based on financial and non-financial performance criteria and were the same as for 2008 - 2010:

- 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 2009 - 2011 for Messrs Molengraaf and Van Lieshout came out at 70% of the maximum of 30% of the annual gross base salary.

d. Pension benefits

The pension provisions for Messrs Molengraaf and Van Lieshout are held within the company pension scheme operated by Stichting Pensioenfonds ABP. Pension costs relate to payments of the standard ABP contributions, which are based on annual gross pensionable salary. As contractually agreed, variable remuneration is not pensionable.

The contributions paid for retirement and surviving dependants' pensions in the reporting year amounted to € 37,000 for Mr Molengraaf and € 34,000 for Mr Van Lieshout.

e. Other benefits

In 2011, the total amount of social security charges, the employer's health insurance contribution and the fixed expense allowance amounted to € 24,000 in the case of Mr Molengraaf and to € 24,000 in the case of Mr Van Lieshout. In 2011 Mr Molengraaf was paid an amount of € 11,000 and Mr Van Lieshout an amount of € 12,000 in respect of previous years.

More details of the remuneration of the members of the Management Board in 2011 can be found in the notes to the consolidated financial statements (page 133).

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 members of the Supervisory Board.

The General Meeting of Shareholders last adopted the gross annual remuneration for the Supervisory Board in 2002, since when this has been as follows:

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

As requested by the shareholders, the remuneration of the Supervisory Board members was reassessed in 2011. It was resolved at the General Meeting of Shareholders on 12 May 2011 to pay the following remuneration from 1 June 2011.

Supervisory Board

Annual gross remuneration:

- Chairman of the Supervisory Board € 27,500
- Members € 22,500

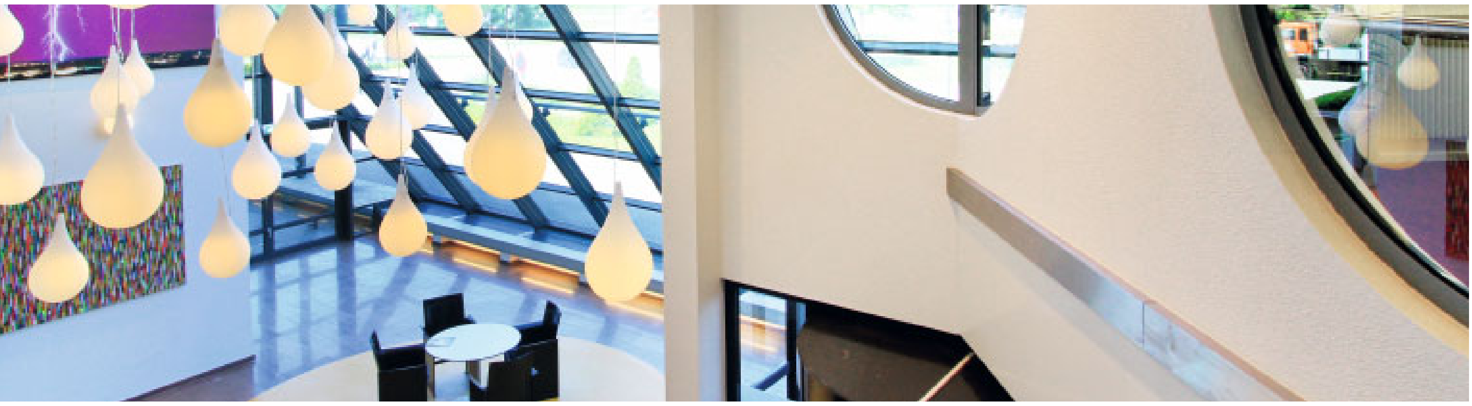
Committees

Gross annual remuneration for membership of committee

- Chairman of Audit Committee € 7,500
- Member of Audit Committee € 5,000
- Chairman of Selection, Appointment and Remuneration Committee € 7,500
- Member of Selection, Appointment and Remuneration Committee € 5,000

The above remuneration will be adjusted each year in line with salary developments in the collective labour agreement for network companies.

Details of the remuneration paid to each Supervisory Board member in 2011 can be found in the notes to the consolidated financial statements (page 134).



Looking ahead to 2012

The base salary of the members of the Management Board will rise by 1.5% on 1 September 2012 in line with the salary increase applying to Alliander employees covered by the collective labour agreement for network companies.

In autumn 2011 a benchmark study examined the remuneration of Alliander's Management Board in comparison with the reference groups previously specified. Despite the results of this benchmark study, the Supervisory Board decided not to submit a proposal to amend the basic principles applying in respect of the Management Board's 2012 remuneration policy to the General Meeting of Shareholders in view of the forthcoming legislation regulating top salaries in the public and semi-public sectors.

Legislation is being prepared on standards for remunerating senior officials in the public and semi-public sectors. The Bill to this effect was approved by the Second Chamber of Parliament on 6 December 2011, and the Upper House will consider it in spring 2012. The legislation is expected to come into force on 1 January 2013, and salaries of senior officials working for organisations covered by the legislation will then have to comply with its provisions.

The Supervisory Board regards the proposed legislation as a worrying development in that it will have an adverse impact on the position of such organisations in the employment market and make it more difficult for them to attract the talented individuals they need. This is likely to apply both in respect of suitably qualified senior staff and also when seeking to attract trainees as their prospects at companies not covered by the new legislation will be substantially better.

We will consult with the shareholders on the consequences of the new legislation in 2012 in the usual way.

financial statements

4

financial statements

Consolidated financial statements

Consolidated balance sheet

€ million	Note	2011	2011	2010	2010
Assets					
Non-current assets					
Property, plant and equipment	3	5,575		5,402	
Intangible assets	4	320		320	
Investments in associates and joint ventures	5	54		57	
Available-for-sale financial assets	6	279		261	
Other financial assets	7	38		40	
Deferred tax assets	17	346		368	
			6,612		6,448
Current assets					
Inventories	9	28		27	
Trade and other receivables	10	277		279	
Derivatives	8	-		1	
Tax assets		-		19	
Other financial assets	7	295		125	
Cash and cash equivalents	11	106		501	
			706		952
Total assets			**7,318**		**7,400**
Equity & liabilities					
Equity	12				
Share capital		684		684	
Share premium		671		671	
Subordinated perpetual bond		494		494	
Hedge reserve		-5		-12	
Revaluation reserve		-		-7	
Other reserves		984		854	
Profit after tax		251		222	
Total equity			**3,079**		**2,906**
Liabilities					
Non-current liabilities					
Interest-bearing debt	13	1,422		2,152	
Derivatives	8	120		95	
Finance lease liabilities	19	133		128	
Deferred income	14	1,505		1,474	
Deferred tax liabilities	17	-		1	
Provisions for employee benefits	15	55		63	
Other provisions	16	29		52	
			3,264		3,965
Short-term liabilities					
Trade and other payables	18	93		99	
Tax liabilities		59		67	
Interest-bearing debt	13	509		32	
Derivatives	8	49		7	
Provisions for employee benefits	15	58		56	
Accruals		207		268	
			975		529
Total liabilities			**4,239**		**4,494**
Total equity and liabilities			**7,318**		**7,400**

Consolidated income statement

€ million	Note	2011		2010 [1]	
Revenue	21	1,586		1,432	
Other Income	22	109		93	
Total income			**1,695**		**1,525**
Operating expenses					
Purchase costs and costs of subcontracted work	23	-450		-427	
Employee benefit expenses	24	-385		-355	
External personnel expenses	24	-109		-102	
Other operating expenses	25	-193		-187	
Total purchase costs, costs of subcontracted work and operating expenses		**-1,137**		**-1,071**	
Depreciation and impairment of property, plant and equipment	26	-312		-241	
Less: Own work capitalised		152		124	
Total operating expenses			**-1,297**		**-1,188**
Operating profit (EBIT)			**398**		**337**
Finance income	27		29		32
Finance expense	28		-205		-147
Result from associates and joint ventures after tax	5		-5		8
Profit before tax			**217**		**230**
Tax	29		34		-8
Profit after tax			**251**		**222**

1 The figures for 2010 have been restated to reflect a change in presentation whereby all fair value movements on financial instruments are recognised in finance income and expense with effect from 2011.

The profit after tax for 2011 is entirely attributable to the shareholders of Alliander N.V.

The comprehensive income was as follows:

Consolidated statement of comprehensive income

€ million	2011	2010 [1]
Profit after tax	**251**	**222**
Other elements of comprehensive income		
Revaluation of available-for-sale assets	7	3
Movement in fair value cash flow hedges	-22	-4
Termination hedge relation	29	-
Comprehensive income	**265**	**221**

1 The figures for 2010 have been restated to reflect a change in presentation whereby all fair value movements on financial instruments are recognised in finance income and expense with effect from 2011.

Consolidated cash flow statement

€ million	Note	2011		2010[1]	
Cash flow from operating activities	30				
Profit after tax			**251**		**222**
Adjustments for:					
- Finance income and expense			176		115
- Tax			-34		8
- Profit after tax from associates and joint ventures			5		-8
- Depreciation and impairment less amortisation			255		200
Changes in working capital:					
- Inventories		-1		-3	
- Trade and other receivables		2		58	
- Trade and other payables and accruals		-73		-44	
Total changes in working capital			**-72**		**11**
Changes in deferred tax, provisions, derivatives and other			72		45
Cash flow from operations			**653**		**593**
Net interest paid		-149		-132	
Net interest received		15		26	
Dividends received from associates and joint ventures		1		5	
Corporate income tax received (paid)		7		16	
Total			**-126**		**-85**
Cash flow from operating activities			**527**		**508**
Cash flow from investing activities	30				
Acquisitions, excluding acquired cash and cash equivalents		-		-56	
Investments in property, plant and equipment		-475		-368	
Construction contributions received		81		87	
Investments in financial assets (associates and joint ventures)		-4		-3	
Cash flow from investing activities			**-398**		**-340**
Cash flow from financing activities	30				
Movement current interest-bearing liabilities and current part of long-term debt		-23		-74	
Long-term debt issued		23		24	
Long-term debt repaid		-259		-684	
Change in current deposits		-170		176	
Subordinated perpetual bond issued		-		494	
Interest coupon subordinated perpetual bond		-15		-	
Dividend paid		-80		-54	
Cash flow from financing activities			**-524**		**-118**
Net cash flow			**-395**		**50**
Cash and cash equivalents as at 1 January			501		451
Net cash flow			-395		50
Cash and cash equivalents as at 31 December			**106**		**501**

1 The figures for 2010 have been restated to reflect a change in presentation whereby all fair value movements on financial instruments are recognised in finance income and expense with effect from 2011.

Consolidated statement of changes in equity

€ million	Share capital	Share premium	Subordinated perpetual bond	Hedge reserve	Revaluation reserve	Other reserves	Profit for the year	Total
	Equity attributable to shareholders and other providers of equity							
Equity as at 1 January 2010	**684**	**671**	**-**	**-8**	**-10**	**596**	**312**	**2,245**
Movement in fair value cash flow hedges	-	-	-	-4	-	-	-	-4
Revaluation of available-for-sale financial assets	-	-	-	-	3	-	-	3
Profit after tax for 2010	-	-	-	-	-	-	222	222
Comprehensive income for 2010	**-**	**-**	**-**	**-4**	**3**	**-**	**222**	**221**
Issue of subordinated perpetual bond	-	-	494	-	-	-	-	494
Dividend for 2009	-	-	-	-	-	-	-54	-54
Profit appropriation for 2009	-	-	-	-	-	258	-258	-
Equity as at 31 December 2010	**684**	**671**	**494**	**-12**	**-7**	**854**	**222**	**2,906**
Movement in fair value cash flow hedges	-	-	-	-22	-	-	-	-22
Revaluation of available-for-sale financial assets	-	-	-	-	7	-	-	7
Termination hedge relation	-	-	-	29	-	-	-	29
Profit after tax for 2011	-	-	-	-	-	-	251	251
Comprehensive income for 2011	**-**	**-**	**-**	**7**	**7**	**-**	**251**	**265**
Interest coupon subordinated perpetual bond after tax	-	-	-	-	-	-12	-	-12
Dividend for 2010	-	-	-	-	-	-	-80	-80
Profit appropriation for 2010	-	-	-	-	-	142	-142	-
Equity as at 31 December 2011	**684**	**671**	**494**	**-5**	**-**	**984**	**251**	**3,079**

The termination of the hedge relationship relates to a derivative instrument contracted in 2010 to hedge future interest rate risks on part of our EMTN programme. As at year-end 2011, the hedge relationship was discontinued, meaning that hedge accounting ceases to apply. As at year-end 2011, the hedge reserve less deferred tax (€ 10 million) amounted to € 29 million negative. The gross amount of € 39 million was charged to the income statement as at 31 December 2011.

Notes to the consolidated financial statements

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 networks covering roughly one third of the Netherlands and the provision of related services.

The 2011 financial statements were signed by the members of the Management Board and the members of the Supervisory Board on 7 March 2012. The Supervisory Board will submit the financial statements for adoption by the General Meeting of Shareholders on 12 April 2012.

Change in presentation

Alliander has decided that, with effect from 2011, the exchange differences on the available-for-sale financial assets serving to hedge the liabilities under two cross-border lease contracts and on a credit default swap (CDS) written on an investment portfolio related to the cross-border lease contracts should be accounted for as finance income and expense instead of as operating expenses. Up to year-end 2010, the exchange differences on the balance sheet items referred to (denominated in USD) were recognised as part of operating expenses.

In Alliander's view, the change in presentation is a better reflection of the nature of the items and the reasons why they are held. The new presentation is also more in line with the way in which our financial instruments that are not related to cross-border leases are treated. For users of the financial statements, presentation of the exchange differences relating to these instruments as finance income and expense provides a more accurate view of the operating results achieved by Alliander on its primary activities.

The change does not affect the profit after tax and therefore has no impact on equity either. The only change is a transfer from operating profit to finance income and expense.

For 2010, the change means that the operating profit increases by € 7 million at the expense of finance income and expense. If the change had not been implemented in 2011, the operating profit would have been € 412 million and the net finance income and expense € 181 million. The comparative figures for 2010 have been restated on the basis of the new policy.

IFRS

Alliander's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as at 31 December 2011, 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.

Unrealised profits on transactions between the Alliander group and its associates or joint ventures are eliminated pro rata according to the group's interest in the entity concerned. 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.

New and/or amended IFRS standards applicable in 2011

The IASB and the IFRIC have issued new and/or amended standards and interpretations which are applicable to Alliander with effect from the 2011 financial year. The standards and interpretations below have been endorsed 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.

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 has a limited effect on Alliander.

IAS 32 'Financial Instruments: Presentation' has been amended with a view to clarifying how certain rights issues should be accounted for when the issued instruments are denominated in a currency other than the functional currency. This amendment does not affect Alliander because Alliander has no such instruments.

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, does not have any 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. This interpretation does not have any impact on Alliander.

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 2011 which will be applicable to Alliander with effect from the 2012 financial year or subsequent financial years. These standards and interpretations can only be applied if adopted by the European Commission.

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 amendments, which apply to financial years commencing on or after 1 July 2011, are not applicable to Alliander.

IFRS 7 'Financial Instruments: Disclosures on derecognition has been amended with the object of improving the transparency of the reporting of asset transfers, particularly in connection with the securitisation of financial assets. This amendment does not affect Alliander.

IFRS 9 'Financial Instruments' is a new standard which introduces new requirements for the classification and measurement of financial assets. In December 2011, the date when this standard first becomes applicable was put back to 1 January 2015. In 2010, new requirements were added to IFRS 9 for the classification and measurement of financial liabilities. It is currently not known whether or to what extent the European Commission will adopt IFRS 9. The impact on Alliander cannot therefore be determined yet.

IAS 1 'Presentation of Financial Statements' has been amended, the main change being that, in the presentation of the other elements of comprehensive income, elements should be grouped according to whether or not they will be settled through the income statement.

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 19 'Employee Benefits' has been amended. As a result of this amendment, the corridor approach has been dropped and funding costs will instead be calculated on a net capitalisation basis. This amendment, which will be applicable with effect from 1 January 2013, is expected to have a limited impact on Alliander.

IAS 32 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures' have been amended with regard to offsetting of assets and liabilities. IAS 32 now includes a more detailed explanation concerning the conditions to be satisfied for offsetting and IFRS 7 has been expanded with specific disclosure requirements for instruments to which offsetting is applicable. These amendments will be applicable with effect from 1 January 2014. They are expected to have a limited impact for Alliander or none at all.

IFRS 10 'Consolidated Financial Statements'. IFRS 10 replaces that part of IAS 27 which deals with the consolidated financial statements as well as interpretation SIC 12 and is applicable with effect from 1 January 2013. IFRS 10 uses a single-control model applying to all entities, including special-purpose entities. This new approach may affect Alliander's consolidation but the impact has still to be determined.

IFRS 11 'Joint Arrangements'. IFRS 11 replaces IAS 31 and SIC 13 and is applicable with effect from 1 January 2013. IFRS 11 distinguishes two forms of joint arrangement: joint operations and joint ventures. A joint operation is when the partnership is concerned with joint interests in assets, liabilities, income and expense. A joint venture exists when the arrangement confers a right to the net assets of the arrangement. As a consequence the equity method as to be used. Under IFRS 11, proportionate consolidation of joint ventures is no longer permitted. The impact for Alliander has still to be determined.

IFRS 12 'Disclosures of Interests in Other Entities'. IFRS 12 contains the disclosure requirements for all forms of interests in other entities, including joint arrangements, special-purpose entities and other special entities not included in the balance sheet. IFRS 12 is applicable with effect from 1 January 2013. The impact for Alliander still has to be determined.

IFRS 13 'Fair Value Measurement'. IFRS 13 aims to improve consistency of measurement at fair value and reduce the complexity thereof by giving a precise definition of measurement at fair value and the associated disclosure requirements for use under IFRS. IFRS 13 is applicable with effect from 1 January 2013. The impact for Alliander has still to be determined.

IAS 27 'Separate Financial Statements' (revised 2011) has been amended in connection with the issue of IFRS 10 and contains the requirements for the separate financial statements left by transferring the consolidation requirements to IFRS 10.

IAS 28 'Associates and Joint Ventures' (revised 2011) contains the requirement, following on from IFRS 11, that interests in joint ventures, like investments in associates, must be recognised using the equity method.

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 provided by Section 362, subsection 8, Part 9, Book 2, of the Netherlands Civil Code to prepare the company financial statements in accordance with the accounting policies that are used in the preparation of the consolidated financial statements. These accounting policies also contain the basis on which financial instruments are presented as equity or as borrowed capital. Investments in consolidated group companies are recognised using the equity method, in which goodwill is recognised. As permitted by Section 402, Part 9, Book 2, of the Netherlands Civil Code, the company income statement is presented in abridged form.

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 profits on transactions between the Alliander group and its associates or joint ventures are eliminated pro rata according to the group's interest in the entity concerned. 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

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].

In 2011, there were no new consolidations or deconsolidations.

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.

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.

The reconciliation with the reported figures is given in note [2].

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. Currency translation differences on monetary available-for-sale financial assets are recognised in income when they relate to the translation of the amortised cost in foreign currency. All other translation differences are recognised in equity.

Impairment

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.

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.

With effect from 1 January 2011, there has been a change in the cash-generating units within Alliander, chiefly affecting the metering service because the small-user electricity metering service has been regulated with effect from 1 January 2011 and the small-user gas metering service has been regulated with effect from 1 January 2012.

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;
- 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 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 replacement. 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.

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.

The useful lives of the asset categories are as follows:

- land: not depreciated;
- buildings: 20-50 years;
- networks: 5-55 years;
- other plant and equipment; 3-60 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 55 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.

Change in estimate of depreciation period for networks

In connection with the developments in the energy sector, such as energy transition, technological and economic progress and tougher safety standards, Alliander has prepared a plan setting forth its vision of the future. An important conclusion of this exercise is that Alliander will have to bring forward upgrades to the existing network (replacement investments) in order to satisfy future energy supply and demand requirements. As a consequence, the useful lives of the electricity and gas networks have been adjusted, resulting in shorter useful lives for both the electricity and gas networks with effect from 1 January 2011. This has led to an increase in the depreciation charges and amortised amounts (other income) over 2011, by € 38 million and € 14 million, respectively, having an impact of € 24 million overall on the operating profit for 2011.

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.

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 investments 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 (other comprehensive income). 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.

Commodity contracts intended for use by the company

Alliander uses energy commodity contracts for physical purchases of electricity, for network losses occurring 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. 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 price risks arising from energy commodity contracts. These hedge transactions can be divided into two 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.

Other derivatives

Fair value gains and losses on other derivatives are recognised in the income statement.

Leases where Alliander acts as lessor

Operating leases

Alliander has entered into operating leases for district heating networks, 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 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.

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 in equal instalments over the lease period.

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 taxable 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 main pension schemes, which are administered by ABP, take the form of multi-employer plans. Although the pension plans offered by these arrangements 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 alter 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
Revenue is made up of:
- regulated revenue, i.e. revenue from the transport of electricity and gas to customers, including fixed components, referred to as the capacity tariff. In addition, with effect from 1 January 2011, regulated revenue includes the income from small-user electricity metering services, since these activities have been regulated since this date. 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 from small-user gas 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 equipment, 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 subcontracted work
This includes the costs of network 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, with the exception of the subordinated perpetual bond loan. Also included with interest expenses are other finance-related costs, such as letters of credit, commitment fees etc. and the costs of repurchasing corporate bonds issued by the company;
- 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 on interest rate derivatives that are used to hedge future cash flows 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.

Note 1 Business combinations

General

There were no acquisitions or takeovers in 2011.

On 1 July 2010 Alliander acquired all the shares of Endinet, whose principal activity is that of network operation in the Eindhoven and Oost-Brabant 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.

On 16 March 2010, Alliander acquired all the shares of Stam.

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**
Non-current 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. 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.

Note

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 networks 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]. Goodwill is not deductible for tax purposes.

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.

Note

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. Goodwill is not deductible for tax purposes.

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

Alliander distinguishes the following reporting segments:

- Network operator 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.

Network operator 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 and parts of Noord-Holland, Flevoland, Friesland and Zuid-Holland.

Network company Endinet Groep B.V., including network operator Endinet B.V., has largely similar activities to those of Liander, but serving the Eindhoven and Oost-Brabant distribution area[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 network operator within Alliander in any case until mid-2015;
- Endinet B.V. will continue to report separately as an independent network operator 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 network operation 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 IT, 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.

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 primary segmentation analysis is as follows, including reconciliation with the reported figures.

Note

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. The external revenue of Liander and Endinet mainly comprise income from energy transport and connection services. In the Other segment, external revenue mainly derive from the services provided by Liandon and Stam and the income from network operation activities in Germany. The eliminations result from the internal services provided by corporate staff departments, service units (such as IT and Shared Services) and Stam to Liander and Endinet. These internal supplies are made at cost.

1 With effect from 1 January 2011, Liander has integrated the activities of the Endinet's gas network operator Haarlemmermeer B.V. into its existing operations. As a consequence, customers in the Municipality of Haarlemmermeer have since been dealing with network operator Liander for both electricity and gas. The network operator 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.

Primary Segmentation

€ million	Network operator Liander		Network company Endinet		Other		Eliminations		**Total**		Reclassification to reported and fair value movements and incidental items		Reported	
Income statement	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010[1]**	**2011**	**2010[1]**
Revenue														
External revenue	1,433	1,305	114	64	148	156	-	-	**1,695**	**1,525**	-	-	1,695	1,525
Internal revenue	11	11	-	-	284	262	-295	-273	**-**	**-**	-	-	-	-
Total revenue	**1,444**	**1,316**	**114**	**64**	**432**	**418**	**-295**	**-273**	**1,695**	**1,525**	**-**	**-**	**1,695**	**1,525**
Operating expenses														
Purchase costs and costs of subcontracted work	573	526	15	9	154	142	-67	-54	**675**	**623**	-225	-196	450	427
Operating expenses	553	502	41	20	321	341	-228	-219	**687**	**644**	-	-	687	644
Depreciation and impairments	231	187	35	17	46	37	-	-	**312**	**241**	-	-	312	241
Own work capitalised	-281	-241	-3	-1	-93	-78	-	-	**-377**	**-320**	225	196	-152	-124
Total operating expenses	**1,076**	**974**	**88**	**45**	**428**	**442**	**-295**	**-273**	**1,297**	**1,188**	**-**	**-**	**1,297**	**1,188**
Operating profit	**368**	**342**	**26**	**19**	**4**	**-24**	**-**	**-**	**398**	**337**	**-**	**-**	**398**	**337**
Net finance income/expenses	-67	-48	-10	-5	-24	-62	-	-	**-101**	**-115**	-75	-	-176	-115
Share in results of associates and joint ventures after tax	-	-	-	-	7	8	-	-	**7**	**8**	-12	-	-5	8
Tax	-75	-76	-4	-2	3	22	-	-	**-76**	**-56**	110	48	34	-8
Profit after tax	**226**	**218**	**12**	**12**	**-10**	**-56**	**-**	**-**	**228**	**174**	**23**	**48**	**251**	**222**
Segment assets and liabilities														
Total assets	5,840	5,698	534	598	3,799	3,707	-2,855	-2,603	**7,318**	**7,400**	-	-	7,318	7,400
Non-consolidated investments in associates	-	-	-	-	41	38	-	-	**41**	**38**	-	-	41	38
Non-consolidated investments in joint ventures	1	-	-	-	12	19	-	-	**13**	**19**	-	-	13	19
Liabilities (non-current and current)	3,054	3,106	211	288	2,280	2,636	-1,306	-1,536	**4,239**	**4,494**	-	-	4,239	4,494
Other segment items														
Investments in property, plant and equipment	399	318	24	10	52	40	-	-	**475**	**368**	-	-	475	368
Number of permanent staff at end of year	3,265	3,103	249	301	2,031	1,912	-	-	**5,545**	**5,316**	-	-	5,545	5,316

1 The figures for 2010 have been restated to reflect a change in presentation whereby all fair value movements on financial instruments are recognised in finance income and expense with effect from 2011.

The profit after tax 2011, like the profit after tax for 2010, is entirely attributable to the shareholders of Alliander N.V.

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 of € 225 million (2010: € 196 million) included in purchase costs and costs of raw materials and consumables is eliminated. A note on the incidental items can be found on page 55 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

Geographical segmentation

	External revenue		Property, plant and equipment		Intangible assets		Non-consolidated associates and joint ventures	
€ million	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
The Netherlands	1,655	1,484	5,548	5,376	320	320	53	57
Rest of the world	40	41	27	26	-	-	1	-
Total	**1,695**	**1,525**	**5,575**	**5,402**	**320**	**320**	**54**	**57**

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

Note 3 Property, plant and equipment

Property, plant and equipment

€ million	Land and buildings	Networks	Other plant and equip-ment	Assets under con-struction	**Total**
As at 1 January 2010					
Historical cost	212	7,557	779	191	**8,739**
Accumulated depreciation and impairments	-98	-3,432	-571	-	**-4,101**
Carrying amount as at 1 January 2010	**114**	**4,125**	**208**	**191**	**4,638**
Movements 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 impairments	-103	-3,567	-516	-	**-4,186**
Carrying amount as at 31 December 2010	**123**	**4,867**	**223**	**189**	**5,402**
Movements 2011					
Investments	-	14	48	413	**475**
Divestments	-	-17	-3	-1	**-21**
Depreciation	-7	-222	-62	-	**-291**
Transfers and other movements	17	157	233	-397	**10**
Total	**10**	**-68**	**216**	**15**	**173**
As at 31 December 2011					
Historical cost	244	8,408	1,160	204	**10,016**
Accumulated depreciation and impairments	-111	-3,609	-721	-	**-4,441**
Carrying amount as at 31 December 2011	**133**	**4,799**	**439**	**204**	**5,575**

Investment

Capital expenditure on property, plant and equipment totalled € 475 million (2010: € 368 million).

New consolidations

There were no acquisitions in 2011.

Divestment

Divestment in 2011 related to decommissioning of network assets and other plant and equipment and sales of buildings and land.

Impairment

There were no impairments in 2011. Impairment tests were carried out at year-end for the various assets concerned. 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 2011, Alliander applied a discount rate before tax of 7.9% for the years 2012 and 2013 and 6.6% for later years (2010: 7.9%), reflecting the periods for which the regulated activities are regulated, and 8.1% (2010: 8.5%) 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 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 2011 was approximately € 1.2 billion (2010: € 1.2 billion). At the end of 2011, a total of $ 4.0 billion (2010: $ 3.8 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 2011, the maximum 'strip risk' (the portion of the 'termination value' – the possible compensation payable to the American counterparty in the event of premature termination of the transaction – which cannot be settled from the deposits and investments held for this purpose) for all transactions together was $ 450 million (year-end 2010: $ 601 million). To cover the equity part of the strip risk, amounting to $ 268 million at the end of 2011 (2010: $ 465 million), Alliander has provided the investors involved with security in the form of letters of credit for an amount of $ 103 million (2010: $ 222 million) in various transactions. The number and size of the letters of credit to be issued depends partly on Alliander's credit rating. The drop in the amount of the maximum strip risk as at year-end 2011 compared with the 2010 position is largely due to interest rate movements.

In connection with the implementation of the Independent Network Operation Act, the heating networks belonging to Liander Infra Oost N.V. 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. These operating leases have 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 2011 was € 113 million (2010: € 117 million).

Note 4 Intangible assets

Intangible assets

€ million	Goodwill	Other intangible assets	Total
As at 1 January 2010			
Historical cost	396	-	**396**
Accumulated amortisation and impairments	-187	-	**-187**
Carrying amount as at 1 January 2010	**209**	**-**	**209**
Movements 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 impairments	-187	-	**-187**
Carrying amount as at 31 December 2010	**313**	**7**	**320**
Movements 2011	-	-	-
As at 31 December 2011			
Historical cost	500	7	**507**
Accumulated amortisation and impairments	-187	-	**-187**
Carrying amount as at 31 December 2011	**313**	**7**	**320**

In 2011, investments and amortisation amounted to nil. The investments in 2010 relate to the acquisitions of Endinet (€ 97 million) and Stam (€ 7 million). The other intangible assets are amortised over 20 years.

Goodwill allocation by segment

€ million	2011	2010
Liander	277	277
Endinet	36	36
Total	**313**	**313**

Of the total amount of goodwill allocated to Liander, € 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 in 2010 and € 7 million relating to Stam. The goodwill allocated to Endinet (€ 36 million) mainly relates to synergy and outperformance effects.

At the end of 2011, 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 is calculated on the basis of the most recent business plans, using a discount rate before tax of 7.9% for the years up to the end of 2013 and 6.6% for later years (2010: 7.9%), reflecting the period for which the activities are regulated. The discount rate is arrived at using the Office of Energy Regulation calculation method. 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. The terminal value for the regulated activities is based on achieving the ‘reasonable return’ that a network operator can expect to achieve on its standardised asset value. Where appropriate, account is also taken of temporary or structural synergistic effects or other departures from the reasonable return. There is such a margin between the value in use and the carrying amount of the networks that the sensitivity to changes in the estimates and assumptions used is limited. There were no impairments in 2011.

Note 5 Investments in associates and joint ventures

Investments in associates and joint ventures

€ million	Associates 2011	Associates 2010	Joint ventures 2011	Joint ventures 2010	Total 2011	Total 2010
Carrying amount as at 1 January	38	32	19	18	57	50
Movements						
Investments	4	2	-	-	4	2
New consolidations	-	1	-	-	-	1
Share in results	6	3	1	5	7	8
Dividends received	-1	-1	-	-4	-1	-5
Impairment	-4	-	-8	-	-12	-
Currency translation differences and other movements	-1	1	-	-	-1	1
Total	4	6	-7	1	-3	7
Carrying amount as at 31 December	42	38	12	19	54	57

The impairments of € 4 million on investments in associates relate to the companies Plugwise Holding B.V. (€ 2 million) and Locamation Beheer B.V. (€ 2 million). The impairments of € 8 million on interests in joint ventures relate to Ziut B.V. and arise owing to adjustments in the forecast medium-term results.

The method used is identical to that described in note [4]. In view of the actual control exercised, Ziut B.V. is classified as an investment in a joint venture. The share in results for 2011 is based on provisional figures. Dividends of € 1 million were received from associates and joint ventures in 2011 (2010: € 5 million).

Financial information of investments in associates

€ million	% Interest held	Assets	Liabilities	Revenue	Profit/ loss	Carrying amount
2010						
N.V. KEMA, Netherlands	25%	223	82	245	19	34
Other						4
Carrying amount as at 31 December 2010						38
2011						
N.V. KEMA, Netherlands	25%	n/a	n/a	n/a	n/a	39
Other						3
Carrying amount as at 31 December 2011						42

n/a: not available – the formal documents have not yet been published.

Financial information of investments in joint ventures

€ million	% Interest held	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Expenses	Carrying amount
2010								
Ziut B.V., Netherlands	53%	7	75	7	52	153	146	19
Carrying amount as at 31 December 2010								**19**
2011								
Ziut B.V., Netherlands	53%	n/a	n/a	n/a	n/a	n/a	n/a	12
Reddyn B.V., Netherlands	50%	n/a	n/a	n/a	n/a	n/a	n/a	-
Carrying amount as at 31 December 2011								**12**

n/a/: not available – the formal documents have not yet been published.

Note 6 Available-for-sale financial assets

Available-for-sale financial assets

€ million	
Carrying amount as at 1 January 2010	**240**
Movements 2010	
Currency translation differences and other movements	21
Total	**21**
Carrying amount as at 31 December 2010	**261**
Movements 2011	
Currency translation differences and other movements	18
Total	**18**
Carrying amount as at 31 December 2011	**279**

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 2011, the fair value was € 120 million negative (2010: € 95 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 2011 of € 49 million (2010: € 138 million) and serves both to cover related lease obligations as well as the aforementioned CDS. The carrying amount of the related lease obligations was € 132 million at year-end 2011 (2010: € 128 million). The carrying amount of the investments not related to cross-border lease contracts as at year-end 2011 was € 130 million (2010: € 123 million).

Note 7 Other financial assets (including current portion)

Other financial assets

€ million	Loans, receivables and other
Carrying amount as at 1 January 2010	**308**
Effective interest rate 2010	1%
Movements 2010	
New receivable	35
Loans granted	802
Loans and interest repaid	-976
Impairment	-6
Other movements	2
Total	**-143**
Carrying amount as at 31 December 2010	**165**
Effective interest rate 2011	1%
Movements 2011	
New receivable	13
Loans granted	2,375
Loans and interest repaid	-2,220
Total	**168**
Carrying amount as at 31 December 2011	**333**
Non-current portion of other financial assets	38
Current portion of other financial assets	295

At the end of 2011, the carrying amount of the other financial assets comprised receivables, loans and capitalised costs denominated in euros (2010: ditto).

The loans granted and repaid in 2010 and 2011 comprised short-term deposits and investments for financing purposes.

Note 8 Derivatives

Derivatives

	Current assets		Non-current assets		Current liabilities		Non-current liabilities	
€ million	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Trading derivatives								
Interest instruments	-	-	-	-	39	-	-	-
Other derivatives	-	-	-	-	1	-	120	95
Total	**-**	**-**	**-**	**-**	**40**	**-**	**120**	**95**
Cash flow hedges								
Foreign exchange contracts	-	1	-	-	9	-	-	-
Interest instruments	-	-	-	-	-	7	-	-
Total	**-**	**1**	**-**	**-**	**9**	**7**	**-**	**-**
Carrying amount as at 31 December	**-**	**1**	**-**	**-**	**49**	**7**	**120**	**95**

Derivatives are measured 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 2011 was € 120 million (2010: € 95 million).

Included in the derivatives held for trading purposes there were four interest rate derivatives, accounted for in the current liabilities, to which hedge accounting was applied up to year-end 2011. With effect from 31 December 2011, the hedge relationship has been discontinued, meaning that hedge accounting can no longer be used. The negative hedge reserve less deferred tax of € 10 million amounted to € 29 million as at year-end 2011. The gross amount of € 39 million was charged to the income statement as at year-end 2011.

Note 9 Inventories

Inventories

€ million	2011	2010
Raw materials and consumables	24	27
Finished goods	4	-
Carrying amount as at 31 December	**28**	**27**

There was no impairment of inventories in 2011 (2010: nil).

Note 10 Trade and other receivables

Trade and other receivables

€ million	2011		2010	
Trade receivables	164		170	
Impairments of trade receivables	-21		-23	
Trade receivables net		**143**		**147**
Other receivables		27		39
Accrued income and prepayments		107		93
Carrying amount as at 31 December		**277**		**279**

At the end of 2011, impairments of trade receivables totalled € 21 million (2010: € 23 million). The impairment loss on trade receivables recognised in the income statement in 2011 amounted to € 4 million (2010: € 7 million). For further information, see the credit risk section of note [34].

Note 11 Cash and cash equivalents

Cash and cash equivalents

€ million	2011	2010
Cash held at banks	3	5
Deposits	103	496
Carrying amount as at 31 December	**106**	**501**

The effective interest rate on cash and cash equivalents ranged from 0.05% to 1.94% (2010: 0.54% to 1.49%). Cash and cash equivalents are held almost entirely in euros. In 2011, there were no amounts of cash and deposits which were not at the unrestricted disposal of Alliander (2010: nil).

Note 12 Equity

Authorised share capital

The company's authorised capital is divided into 350 million shares of € 5 nominal value. As at year-end 2011, 136,794,964 shares were in issue (2010: 136,794,964).

Subordinated perpetual bond

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 2012, the Management Board will pay coupon interest for the period from 24 June 2011 to 23 June 2012, inclusive, to the holders of the subordinated perpetual bond loan, chargeable to Other reserves. This represents an amount of € 24 million.

In this context, a payment of € 15 million (€ 12 million after tax) was made to the holders of the subordinated perpetual bond loan on 24 June 2011. This first coupon payment related to the period in 11 November 2010 to 23 June 2011.

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. Alliander is contracted to redeem a portion (€ 500 million) of the EMTN portfolio in April 2012.
To mitigate the interest rate risk connected with any refinancing of part of the EMTN portfolio in April 2012, Alliander entered into four hedging contracts in April 2010. Hedge accounting has been used as from the date on which these instruments were contracted.
At year-end 2011, based on a revised view of the borrowing requirement for the short- and medium-term, it was decided not to undertake any comprehensive refinancing in April 2012. This means that, as at year-end 2011, the requirements for hedge accounting were no longer satisfied and a hedge relationship no longer existed. As at year-end 2011, the hedge reserve less deferred tax (€ 10 million) amounted to € 29 million negative. The gross amount of € 39 million was charged to the income statement as at 31 December 2011.

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	2011	2010
Carrying amount as at 1 January	**2,184**	**2,218**
Movements		
New loans	26	24
New consolidations	-	625
Loans repaid	-281	-689
Currency translation differences and other movements	2	6
Total	**-253**	**-34**
Carrying amount as at 31 December	**1,931**	**2,184**

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.

The carrying amount of the long-term interest-bearing debt, including the current portion, was as follows:

Short- and long-term interest-bearing debt

	Effective interest rate		Current portion		Non-current portion	
€ million	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Subordinated loans	8.8%	8.6%	3	2	98	102
Private and green loans	3.3%	1.9%	2	27	23	3
Euro Medium Term Notes	4.6%	4.8%	500	-	1,292	2,037
Banks	8.2%	8.2%	-	-	2	2
Other			4	3	7	8
Carrying amount as at 31 December			**509**	**32**	**1,422**	**2,152**

Short-term interest-bearing debt of € 509 million as at 31 December 2011 (2010: € 32 million) comprised the current portion of the long-term debts plus liabilities in respect of employee schemes (mainly deposit schemes).

As at year-end 2010, an amount of € 2.1 billion had been issued under the EMTN programme. In November 2011, Alliander redeemed an amount of € 250 million of this programme, leaving bonds totalling € 1.8 billion in issue as at 31 December 2011. The costs associated with buying back the bonds (€ 30 million) have been accounted for in finance income and expense.

These debt instruments are quoted on the Amsterdam and Luxembourg stock exchanges. There was no ECP outstanding at the end of 2011 (2010: nil).

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	**2011**	**2010**
Less than 1 year	509	32
Between 1 and 2 years	5	503
Between 2 and 3 years	440	4
Between 3 and 4 years	5	502
Between 4 and 5 years	590	4
Over 5 years	382	1,139
Carrying amount as at 31 December	**1,931**	**2,184**

Note 14 Deferred income

Deferred income

€ million	**2011**	**2010**
Carrying amount as at 1 January	**1,474**	**1,436**
Contributions received	81	87
Amortisation recognised as income	-57	-41
Reclassification and other movements	7	-8
Carrying amount as at 31 December	**1,505**	**1,474**

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). With a view to possible system changes to accommodate future patterns of energy supply and demand, Alliander has revised the useful lives of the electricity and gas networks, resulting in shorter useful lives for both the electricity and gas networks with effect from 1 January 2011. The depreciation periods have been altered accordingly, leading to an increase of € 14 million in depreciation charges. For further details, see also note [26].

Note 15 Provisions for employee benefits

Provisions for employee benefits

	Current portion		Non-current portion		Total	
€ million	2011	2010	2011	2010	2011	2010
Long-term employee benefits						
Post-employment benefits	2	2	5	7	**7**	**9**
Other long-term employee benefits	11	9	40	43	**51**	**52**
Termination benefits	2	1	10	13	**12**	**14**
	15	**12**	**55**	**63**	**70**	**75**
Short-term employee benefits						
Short-term employee benefits	43	44	-	-	**43**	**44**
Carrying amount as at 31 December	**58**	**56**	**55**	**63**	**113**	**119**

Alliander has various pension and similar plans for its current and former employees. The majority of the pension liabilities are insured with ABP. In addition to this main pension plan, Alliander has other defined benefit and defined contribution plans that are not significant in size. The ABP pension scheme is classed as a multi-employer defined benefit plan. A proportionate part of the gross obligation, plan assets and costs associated with the plan should be recognised in Alliander's financial statements. However, as Alliander does not have access to the required information, the pension plan is treated as a defined contribution plan. 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 liability arising from the agreement is recognised in the balance sheet. The resulting gains or losses are recognised in the income statement. The pension plan administered by ABP has none of the above features. 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 € 7 million at the end of 2011 (2010: € 9 million). The provision for post-employment benefits was as follows:

Post-employment benefits

	Current portion		Non-current portion		Total	
€ million	2011	2010	2011	2010	2011	2010
Actuarial value of post-employment healthcare insurance	2	2	5	7	**7**	**9**
Actuarial value of obligations as at 31 December	**2**	**2**	**5**	**7**	**7**	**9**

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, 40 and 50 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

	Current Portion		Non-current portion		Total	
€ million	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Long-service benefits	1	2	25	23	**26**	**25**
Long-term sickness leave and disability benefits	4	2	4	2	**8**	**4**
Unemployment benefits	-	-	1	1	**1**	**1**
Reduction of older employees' working hours	5	5	9	16	**14**	**21**
Other	1	-	1	1	**2**	**1**
Carrying amount as at 31 December	**11**	**9**	**40**	**43**	**51**	**52**

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 2011, an amount to € 3 million was added to the reorganisation provision (2010: € 8 million). The provision for termination benefits totalled € 12 million at the end of 2011 (2010: € 14 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 2010	**11**	**54**	**10**	**75**
Movements 2010				
Released	-1	-5	-	**-6**
Added	-	8	8	**16**
Interest expenses	-	1	-	**1**
Benefits paid	-1	-12	-4	**-17**
Actuarial gains and losses recognised immediately	-	3	-	**3**
New consolidations	-	3	-	**3**
Total	**-2**	**-2**	**4**	**-**
Carrying amount as at 31 December 2010	**9**	**52**	**14**	**75**
Movements 2011				
Released	-	-	-2	**-2**
Added	-	9	3	**12**
Interest expenses	-	2	-	**2**
Benefits paid	-2	-11	-4	**-17**
Actuarial gains and losses recognised immediately	-	-1	1	**-**
Total	**-2**	**-1**	**-2**	**-5**
Carrying amount as at 31 December 2011	**7**	**51**	**12**	**70**

The main assumptions used in determining the provisions are given below:

Assumptions

	2011	2010
Mortality tables	generation table 2010 - 2060 layer 2011	GBM/GBV 00-05
Discount rates	1.49%-3.84%	1.42%-4.19%
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 € 43 million at the end of 2011 (2010: € 44 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	Onerous contracts	Other provisions	Total
Carrying amount as at 1 January 2010	**15**	**8**	**21**	**44**
Movements 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**
Movements 2011				
Added	2	-	4	**6**
Utilised	-	-	-26	**-26**
Reclassified to current liabilities	-2	-	-	**-2**
Released	-	-	-1	**-1**
Total	**-**	**-**	**-23**	**-23**
Carrying amount as at 31 December 2011	**11**	**1**	**17**	**29**

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 employees who have been away from the labour market as well as specific provisions for various claims and litigation.

Note 17 Deferred tax

Deferred tax assets were as follows:

Deferred tax assets

€ million	2011	2010
Differences in valuation of property, plant and equipment	277	323
Tax losses carried forward	54	32
Hedge reserves	1	1
Other differences	14	12
Carrying amount as at 31 December	**346**	**368**

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 2010	**578**	**18**	**3**	**44**	**643**
Movements 2010					
Direct equity movements in hedge reserve	-	-	-1	-	**-1**
Realised temporary differences	-121	-	-1	-31	**-153**
Effect adjustment in forecast results	55	-	-	-	**55**
Change 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**
Movements 2011					
Direct equity movements in hedge reserve	-	-	-	-2	**-2**
Realised temporary differences	-66	-	-	4	**-62**
Effect adjustment in forecast results	20	-	-	-	**20**
Tax losses carried forward	-	22	-	-	**22**
Total	**-46**	**22**	**-**	**2**	**-22**
Carrying amount as at 31 December 2011	**277**	**54**	**1**	**14**	**346**

The deferred tax assets of € 277 million in respect of property, plant and equipment (2010: € 323 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.

The reduced amount of the realised temporary differences in 2011 compared with 2010 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 increase in the tax loss carryforward in 2011 stems partly from the special fiscal allowance rules, which permit investments to be written off in two years for tax purposes. The tax losses can only be set against future taxable profits and a deferred tax asset is therefore recognised. There were no changes in the rates of corporate income tax in 2011.

Unrecognised deferred tax assets

Unrecognised deferred tax assets as at year-end 2011, amounting to € 58 million (2010: € 71 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.

In 2011, an adjustment was recognised in respect of the amounts calculated for tax purposes in prior years, resulting in an increase of € 7 million in the unrecognised deferred tax assets. In addition, following revision of the projected long-term results, the recognised deferred tax assets released to income increased by € 20 million. These changes resulted in unrecognised deferred tax assets as at year-end 2011 of € 58 million.

Note 18 Trade and other payables

Trade and other payables

€ million	2011	2010
Trade payables	37	22
Amounts due to construction contract customers	4	18
Other payables	52	59
Carrying amount as at 31 December	**93**	**99**

Note 19 Leases

Finance lease receivables

At year-end 2011 and 2010, Alliander had no receivables from finance leases.

Operating lease receivables

The total future minimum lease receivables from non-cancellable operating leases not shown on the face of the balance sheet is as follows:

Operating lease receivables

€ million	2011	2010
Less than 1 year	27	28
Between 1 and 5 years	108	107
Over 5 years	92	100
Total	**227**	**235**

At 31 December 2011, the operating leases related mainly to rental of transformers and the subleasing of two district heating networks 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 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**
As at 31 December 2011				
Future minimum lease obligations	9	36	236	**281**
Future finance expense on finance leases	-10	-39	-99	**-148**
Present value of finance lease obligations	**-1**	**-3**	**137**	**133**

Finance lease payables at year-end 2011 and year-end 2010 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	2011	2010
Less than 1 year	20	19
Between 1 and 5 years	41	39
Over 5 years	1	1
Total	**62**	**59**

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	2011	2010
Capital expenditure commitments regarding property, plant and equipment	80	56
Other purchasing commitments	231	261
Total	**311**	**317**

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 € 2 million had been issued on Alliander's behalf as at year-end 2011 (2010: € 10 million). As at year-end 2011, Alliander had also given guarantees totalling € 8 million relating to employees' mortgages (2010: € 19 million). There were outstanding letters of credit totalling $ 103 million at the balance sheet date (2010: $ 222 million) in respect of cross-border lease obligations. For further information on cross-border leases, see note [3].

Alliander AG has acquired four concessions in Germany allowing the company to acquire certain electricity and gas networks in certain regions of Germany. The successful acquisition of these networks depends on reaching agreement on the purchase price, among other things. In due course, this project involves a possible total investment of around € 70 million.

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 could 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 network operators 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	**2011**	**2010**
Electricity transport and connection services	900	791
Gas transport and connection services	357	315
Metering services	161	152
Operating contributions and proceeds from transformer rental	168	174
Total	**1,586**	**1,432**

Revenue for 2011 was up € 154 million (11%) compared with 2010, at € 1,586 million. This increase was largely due to higher revenue from regulated activities owing to higher regulated tariffs and the consolidation of Endinet's revenue.

Note 22 Other income

Other income

€ million	**2011**	**2010**
Amortisation of construction contributions	57	41
Other income	52	52
Total	**109**	**93**

Other income was € 16 million higher at € 109 million. This increase was largely due to an increase in the rate of amortisation of construction contributions due to a change in the useful life of the assets concerned (€ 14 million).

Note 23 Purchase costs and costs of subcontracted work

The increase of € 23 million was due to an increase in the cost of network losses and an increase in subcontracted work, partially offset by lower purchase costs for transport capacity and restrictions and lower billing and payment collection costs.

Purchase costs and costs of subcontracted work

€ million	2011	2010
Grid losses	110	103
Transport capacity and restrictions	134	135
Billing and payment collection	35	39
Contractors, materials and other	171	150
Total	**450**	**427**

Note 24 Employee benefit expenses

Employee benefits

€ million	2011		2010	
Salaries		300		273
Social security premiums		29		26
Pension costs:				
- contributions paid to multi-employer plans that are accounted for as defined-contribution plans	35		33	
- other post-employment benefit expenses	-		-1	
		35		**32**
Termination benefit expenses	2		8	
Other long-term employee benefit expenses	3		7	
		5		**15**
Other staff costs		16		9
Total		**385**		**355**

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**
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**
2011					
Contributions paid to multi-employer plans	-35	-	-	-	**-35**
Added to provision	-	-	-3	-9	**-12**
Released from provision	-	-	2	7	**2**
Interest expense	-	-	-	-2	**-2**
Actuarial gains and losses	-	-	-1	1	**-**
Total 2011	**-35**	**-**	**-2**	**-3**	**-47**

A note 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.

The external staff costs amounted to € 109 million (2010: € 102 million) and related to contract staff for specific projects and to fill vacancies.

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)

	2011	**2010**
Average during the year	5,430	4,975
As at 31 December	5,543	5,316
Number of permanent staff outside the Netherlands	119	103

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 sections can be found on pages 86 to 91 of the 2011 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 2011	Fixed salary 2010	Short-term variable remuneration 2011	Short-term variable remuneration 2010	Long-term variable remuneration 2011	Long-term variable remuneration 2010[1]	Total 2011	Total 2010
P.C. Molengraaf	223	220	57	66	53	46	**333**	**332**
M.R. van Lieshout	210	207	54	62	48	43	**312**	**312**
Total	**433**	**427**	**111**	**128**	**101**	**89**	**645**	**644**

1 On the basis of the discount rate applicable to the long-term variable remuneration, an amount of € 51,000 was paid to Mr Molengraaf and an amount of € 46,000 was paid to Mr van Lieshout. For the earned amounts regarding 2011 the discount rate applicable is taken into account.

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 2009–2011 was finalised at the end of 2011. The figure presented for 2010 relates to the period 2008–2010.

Pension contributions

€ thousand	2011	2010
P.C. Molengraaf	37	35
M.R. van Lieshout	34	31
Total	**71**	**66**

Social security contributions and other emoluments

€ thousand	2011	2010[1]
P.C. Molengraaf	24	17
M.R. van Lieshout	24	12
Total	**48**	**29**

1 In 2011 an amount of € 11,000 was paid to Mr Molengraaf and an amount of € 12,000 was paid to Mr van Lieshout regarding previous years.

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	2011	2010
E.M. d'Hondt (chairman)	33.5	35.0
F.C.W. Briët	29.2	28.0
Ms J.B. Irik	27.7	28.0
Ms J.G. van der Linde	26.6	23.5
Mrs A.P.M. van der Veer-Vergeer	27.7	28.0
J.C. van Winkelen	29.2	28.0
G. Ybema	27.7	28.0
Total	**201.6**	**198.5**

Note 25 Other operating expenses

Other operating expenses

€ million	2011	2010 [1]
Additions to provisions	1	17
Premises and transport	24	19
Rent and leases	45	47
Corporate staff and ICT	48	49
Sufferance tax	33	26
Other	43	29
Total	**193**	**187**

1 The figures for 2010 have been restated to reflect a change in presentation whereby all fair value movements on financial instruments are recognised in finance income and expense with effect from 2011.

The fees paid for services rendered by PwC in respect of the years 2011 and 2010 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;
- other non-audit services.

The fees were as follows:

Auditor's fees

€ million	2011	2010
Description of services:		
Audit of the financial statements:	1.5	1.6
Other audit services	0.4	0.7
Other assurance services	0.3	0.7
Other non-audit services	0.7	0.8
Total	**2.9**	**3.8**

Note 26 Depreciation and impairment of non-current assets

Depreciation and impairments of property, plant and equipment

€ million	Land and buildings	Networks	Other plant and equipment	Total
2010				
Depreciation	6	165	53	**224**
Divestments	1	10	6	**17**
Total 2010	**7**	**175**	**59**	**241**
2011				
Depreciation	7	222	62	**291**
Divestments	-	17	4	**21**
Total 2011	**7**	**239**	**66**	**312**

In connection with the developments in the energy sector, such as energy transition, technological and economic progress and tougher safety standards, Alliander has prepared a plan setting forth its vision of the future. An important conclusion of this exercise is that Alliander will have to bring forward upgrades to the existing network (replacement investments) in order to satisfy future energy supply and demand requirements. As a consequence, the useful lives of the electricity and gas networks have been adjusted, resulting in shorter useful lives for both the electricity and gas networks with effect from 1 January 2011. As a result of these changes, the depreciation charges in 2011 increased by € 38 million. The divestments include the accelerated depreciation of decommissioned assets.

Note 27 Finance income

Finance income

€ million	2011	2010
Interest income on loans and deposits	6	4
Settlement interest rate derivative in respect of Endinet	-	20
Other finance income	11	3
Currency translation differences	12	5
Total	**29**	**32**

The settlement of the Endinet interest rate derivative in 2010 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 2011 or 2010.

Note 28 Finance expense

Finance expense

€ million	2011	2010[1]
Loans from third parties	-142	-114
Fair value movements interest rate derivatives	-42	-10
Fair value movements commodity swaps	-1	-
Currency translation differences	-11	-11
Other finance expense	-9	-12
Total	**-205**	**-147**

1 The figures for 2010 have been restated to reflect a change in presentation whereby all fair value movements on financial instruments are recognised in finance income and expense with effect from 2011.

The finance expense relating to loans from third parties includes € 30 million in premium paid in connection with the redemption of bonds amounting to € 250 million issued under the EMTN programme.

The fair value changes on interest rate derivatives relate mainly to four interest rate derivative contracts, for which hedge accounting was used. As at year-end 2011, the requirements for hedge accounting were no longer satisfied and a hedge relationship no longer existed.

The negative hedge reserve less deferred tax of € 10 million amounted to € 29 million as at year-end 2011. The gross amount of € 39 million was recognised in the fair value changes on interest rate derivatives as at year-end 2011. See note [12].

The other finance expense includes costs for letters of credit and arranging credit lines.

Note 29 Tax

Tax

€ million	2011	2010
Current tax income/expense	76	98
Movement in deferred taxes	-42	-106
Total	**34**	**-8**

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

%	2011	2010
Enacted corporate income tax rate in the Netherlands	**25.0**	**25.5**
Impact of:		
- release of liabilities for previous years	-32.1	-
- adjustment in carrying amount of deferred tax assets	-9.0	-24.8
- change corporate income tax rate from 2011	-	2.6
- permanent differences	1.0	0.3
Effective corporate income tax rate	**-15.1**	**3.6**

The lower effective tax burden in 2011 relative to tax at the standard rate is largely due to an amount released from the corporate income tax liabilities for prior years and an adjustment in the recognised deferred tax assets following an adjustment in the projected long-term results. See also note [17]. Change in corporate income tax rate in 2010 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). Permanent differences relates to expenses that are not allowed for tax purposes and other items.

Note 30 Notes to the consolidated cash flow statement

Cash flow from operating activities

The cash flow from operating activities in 2011 amounted to € 527 million (2010: € 508 million). The increase is mainly due to a higher profit after tax and higher depreciation charges, the effect of which was partially offset by a smaller movement in working capital. The interest paid in 2011, amounting to € 149 million, also includes the € 30 million in costs connected with the redemption of corporate bonds totalling € 250 million.

Cash flow from investing activities

The cash outflow associated with investing activities in 2011 increased from € 340 million to € 398 million. The increase of € 58 million is entirely explained by the increase in capital expenditure on the networks.

In 2010, there were acquisitions totalling € 56 million, net of acquired cash, for Stam and Endinet. Included in this figure is the net amount of cash 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).

Cash flow from financing activities

The cash outflow associated with financing activities was € 524 million in 2011 compared to € 118 million in 2010. The difference of € 406 million is mainly due to the proceeds from the subordinated perpetual bond issued in 2010, amounting to € 494 million, and a change of € 346 million in short-term deposits. Some compensation for these outflows was provided by a lower amount in loan repayments in 2011 (€ 259 million) compared with 2010 (€ 684 million). The repayments in 2011 mainly concern the repurchase of corporate bonds. As regards 2010, Alliander repaid external loans contracted by Endinet totalling € 625 million in July 2010. Also in July 2010, an interest rate derivative instrument contracted by Endinet was cancelled, involving a payment of € 57 million.

Note 31 Licences

Liander Infra West N.V. and Liander Infra Oost N.V., 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 network operator 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.

As of 1 January 2011, the shares of NetH Title Co B.V. and Endinet Haarlemmermeer B.V. were transferred by Endinet to N.V. Nuon Infra West (now named Liander Infra West N.V.), followed by the merger of these companies with Liander Infra West N.V. as acquiring company. Liander N.V. was subsequently appointed network operator for the Haarlemmermeer region.
The network operator Endinet Oost Brabant N.V. and the network operator 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. Endinet B.V. was then designated network operator of the electricity and gas networks (expiry date 13 December 2020).

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 2011, 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	2011	2010
Sales of goods and services		
- shareholders	-	2
- associates	-	1
- joint ventures	5	8
Total	**5**	**11**
Purchase of goods and services		
- associates	1	2
- joint ventures	7	9
Total	**8**	**11**

The transactions involving the Province of Gelderland have ceased to be included in these disclosures with effect from 2011, owing to the exemption now applicable in the case of related parties that are public authorities.

There were no significant transactions with individuals who qualify as related parties. Alliander had not granted any loans to related parties as at year-end 2011 (2010: € 3 million).

Note 33 Assets and liabilities held for sale and discontinued operations

There were no assets and liabilities held for sale and no discontinued operations in 2011 or in 2010.

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. The liquidity risk is the risk of the company being unable to meet its payment obligations as they fall due.

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 associated with network 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 network 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. The currency risks concern transaction risks, i.e. risks relating to future cash flows in foreign currencies and balance sheet positions in foreign currencies. Currency risks as at 31 December 2011 mainly relate to balance sheet positions in USD. 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.

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. Non-operational risks of this nature as at year-end 2011 related to the assets and liabilities connected with two cross-border lease contracts disclosed in the financial statements. 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.

Sensitivity analysis currency risk

€ million	Position	Income: Decrease by 10% relative to the euro	Income: Increase by 10% relative to the euro	Equity: Decrease by 10% relative to the euro	Equity: Increase by 10% relative to the euro
As at 31 December 2011					
Exposure in USD	148	-15	15	-	-
Hedged position in USD	-148	15	-15	-	-
Sensitivity of cash flow in USD (net)	**-**	**-**	**-**	**-**	**-**
Total exposure in foreign currencies	148	-15	15	-	-
Total hedged position in foreign currencies	-148	15	-15	-	-
Sensitivity of cash flow in foreign currencies (net)	**-**	**-**	**-**	**-**	**-**
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)	**-**	**-**	**-**	**-**	**-**

The following important exchange rate was applicable as at the balance sheet date:

Exchange rates

€ 1	2011	2010
USD	1.30	1.34

Interest rate risk

General

The following table 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, carried on the balance sheet at an amount of € 39 million (2010: € 7 million). The amount of the underlying principal, on which the interest rate risk is hedged, was € 500 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 2011						
Assets						
Available-for-sale financial assets and other financial assets	3.01%	Variable	-	130	149	**279**
Loans and receivables			295	36	2	**333**
Cash and cash equivalents		Variable	106	-	-	**106**
Total assets			**401**	**166**	**151**	**718**
Loans received						
Subordinated loans	8.8%	Fixed	-3	-15	-83	**-101**
Private and green loans	3.3%	Fixed	-2	-23	-	**-25**
Euro Medium Term Notes	4.6%	Fixed	-500	-994	-298	**-1,792**
Banks	8.2%	Fixed	-	-2	-	**-2**
Other		Variable	-4	-6	-1	**-11**
Finance lease obligations	6.7%	Fixed	1	3	-137	**-133**
Total current and non-current financial liabilities			**-508**	**-1,037**	**-519**	**-2,064**
Derivatives						
Interest rate swaps	3.5%	Fixed/ variable	-39	-	-	**-39**
Total liabilities			**-547**	**-1,037**	**-519**	**-2,103**
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 short-term and long-term financial liabilities			**-31**	**-1,018**	**-1,263**	**-2,312**
Derivatives						
Interest rate swaps		Fixed/ variable	-7	-	-	**-7**
Total liabilities			**-31**	**-1,018**	**-1,270**	**-2,319**

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 2011 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

	Position	Income		Equity	
€ million		Decrease by 100 basis points	Increase by 100 basis points	Decrease by 100 basis points	Increase by 100 basis points
As at 31 December 2011					
Variable-rate instruments	708	-7	7	-	-
Interest rate swaps	-39	-24	24	-	-
Sensitivity of cash flow (net)	**669**	**-31**	**31**	**-**	**-**
As at 31 December 2010					
Variable-rate instruments	916	-9	9	-	-
Interest rate swaps	-7	-	-	-23	23
Sensitivity of cash flow (net)	**1,037**	**-9**	**9**	**-23**	**23**

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.

Using a number of interest rate swaps, a fixed-rate bond loan was converted into a variable-rate loan. Changes in the market value of this loan 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 loan resulting from the fair value hedge are amortised over the remaining term to maturity of the loan concerned, unless the loan has been repaid.

Cash flow hedging

Alliander previously issued Euro Medium Term Notes. 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 € 5 million as at 31 December 2011 (2010: € 9 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 ceased to be treated as cash flow hedges as at year-end 2011. The negative hedge reserve less deferred tax of € 10 million amounted to € 29 million as at year-end 2011. The gross amount of € 39 million was charged to the income statement as at year-end 2011.

The table below presents the pre-tax movements in the cash flow hedge reserve in the financial year. As at 31 December 2011, the cash flow hedge reserve was € 5 million net of deferred tax (2010: € 12 million).

Cash flow hedges

€ million	Hedge ineffectiveness	Hedge reserve as at 1 January	Changes in fair value	Transfer to Income	Hedge reserve as at 31 December
2011					
Interest rate risks					
Interest rate swaps	-	-15	-32	42	-5
Total 2011	**-**	**-15**	**-32**	**42**	**-5**
2010					
Interest rate risks					
Interest rate swaps	-	-10	-7	2	-15
Total 2010	**-**	**-10**	**-7**	**2**	**-15**

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. Changes in investments made by Alliander relating to the cross-border lease contracts require 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. 86% of the cash and cash equivalents (2010: 87%) 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 $ 4.0 billion (2010: $ 3.8 billion). This includes the risk on an investment in a credit default swap transaction with an underlying reference portfolio of $ 12.8 billion (2010: $ 12.8 billion), where the credit risk for Alliander has been capped at $ 171 million (€ 132 million; 2010: € 128 million). Of this amount, € 149 million relates to available-for-sale financial assets that Alliander has recognised in its balance sheet (2010: € 138 million). The CDS had a fair value of € 120 million negative as at 31 December 2011 (2010: € 95 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	2011	2010
Not overdue	89	93
0-30 days	38	34
31-90 days	11	12
91-360 days	9	12
> 360 days	17	19
Carrying amount as at 31 December	**164**	**170**

The movements in the provision for bad debts relating to trade receivables were as follows:

Movements in the provision for bad debt

€ million	2011	2010
Carrying amount as at 1 January	23	25
Utilised (trade receivables written off)	-6	-9
Added to allowance account charged to income	4	7
Carrying amount as at 31 December	**21**	**23**

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 (2010: nil).
The other receivables and the prepayments and accrued income do not contain any accounts older than one year.

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. In 2011, Alliander renewed the committed credit facility of € 600 million, originally due to expire at the end of February 2015, until the end of June 2016. 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 2011, Alliander has an ECP programme of € 1.5 billion and an EMTN programme of € 3.0 billion under which € 1.8 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.

The liquidity risk arising in connection with possible margin calls related to foreign currency and interest rate management transactions is closely monitored and reduced by ensuring diversity in the number of counterparties with which transactions are entered into as well as ensuring that appropriate thresholds and other terms and conditions are included in ISDAs en CSAs (Credit Support Annexes). In 2011, Alliander did not receive any margin call requests.

Liquidity risk 2011 and 2010

€ million	Carrying amount	Contractual cash flows			
		Less than 1 year	1 - 5 years	Over 5 years	**Total**
As at 31 December 2011					
Loans received					
Principal amounts	-1,920	-505	-1,041	-382	**-1,928**
Interest		-95	-247	-320	**-662**
Finance lease obligations	-133	-9	-36	-226	**-271**
Accounts payable	-93	-93	-	-	**-93**
Other payables	-328	-328	-	-	**-328**
Off balance sheet commitments					
Operating lease liabilities		-20	-41	-1	**-62**
Derivatives					
Interest rate swaps	-39				
Payment of interest and principal		-12	-69	-5	**-86**
Receipts of interest and principal		7	33	4	**44**
Total		**-5**	**-36**	**-1**	**-42**
Currency instruments					
Forward obligations	-9				
Buy		143	-	-	**143**
Sell		-152	-	-	**-152**
Total		**-9**	**-**	**-**	**-9**
Other derivatives	-121	-1	-120	-	**-121**
Total	**-2,643**	**-1,065**	**-1,521**	**-930**	**-3,516**
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**

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 2011 that differ from their carrying amount.

Fair value of financial assets and liabilities 2011 and 2010

€ million	Note	Carrying amounts of IAS 39 categories: Other payables	Off-balance sheet commitments	Total	Fair value
As at 31 December 2011					
Loans received	13	-1,920	-	-1,920	-2,217
Finance lease obligations	19	-133	-	-133	-128
Off balance-sheet commitments from operating lease liabilities	19	-	-62	-62	-58
As at 31 December 2010					
Loans received	13	-2,173	-	-2,173	-2,457
Finance lease obligations	19	-128	-	-128	-122
Off balance-sheet commitments from operating lease liabilities	19	-	-59	-59	-56

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 2011. 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 2011:

1-year	1.41%	(2010: 1.31%)
5-year	2.09%	(2010: 2.91%)
10-year	3.27%	(2010: 3.73%)
20-year	4.43%	(2010: 4.67%);

- 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

	As at 31 December 2011				As at 31 December 2010			
€ million	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Assets								
Available-for-sale financial assets	-	279	-	**279**	-	261	-	**261**
Current derivatives	-	-	-	**-**	-	1	-	**1**
Total Assets	**-**	**279**	**-**	**279**	**-**	**262**	**-**	**262**
Liabilites								
Non-current derivatives	-	120	-	**120**	-	95	-	**95**
Current derivatives	-	49	-	**49**	-	7	-	**7**
Total Liabilities	**-**	**169**	**-**	**169**	**-**	**102**	**-**	**102**

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 differs in one respect from IFRS in that the subordinated perpetual bond issued in 2010 is treated as being 50% equity and 50% borrowed capital.

Financial 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	2011	2010
Net result on derivatives held for trading:		
- Fair value changes in currency instruments	-10	-13
- Fair value changes interest rate instruments	-39	10
Net result on available-for-sale financial assets	9	10
Net result on financial liabilities at amortised cost:		
- Interest charges on financial liabilities at amortised cost	-142	-112
Interest gains on cash equivalents, loans granted, trade receivables, other receivables and deposits	17	7
Currency translation differences on restricted cash	1	4
Fees paid and received other than for the calculation of the effective interest rate	-9	-12
Net changes in fair value of cash flow hedges transferred from equity	-3	-2
Net finance income and expense	**-176**	**-108**
Impairment of trade receivables	-4	-7
Net result on derivatives held for trading:		
- Fair value changes other financial instruments	-1	12
Other operating expenses	**-5**	**5**

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	2011	2010
Effective part of changes in fair value of cash flow hedges	-32	-7
Net changes in fair value of cash flow hedges transferred to the income statement	42	2
Total recognised in cash flow hedge reserve	**10**	**-5**

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. In connection with the developments in the energy sector, such as energy transition, technological and economic progress and tougher safety standards, Alliander has prepared a plan setting forth its vision of the future. An important conclusion of this exercise is that Alliander will have to bring forward upgrades to the existing network (replacement investments) in order to satisfy future energy supply and demand requirements. As a consequence, the useful lives of the electricity and gas networks have been reduced with effect from 1 January 2011.

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

Alliander holds an interest of 25.4% in N.V. KEMA (KEMA). On 28 February 2012, an agreement was signed under which almost all the other shareholders have sold their stakes in KEMA to the Norwegian company DNV. Alliander and DNV also signed an agreement on the same date on the basis of which Alliander will be able to transfer the shares which it holds to DNV in due course. The agreement gives Alliander a put option enabling the company to sell its interest in KEMA for an already agreed price at some time in the next few years. For its part, DNV has a call option conferring the right to buy Alliander's shareholding in KEMA at a similarly agreed price.

As part of this transaction, KEMA paid a dividend of € 60 million on 28 February 2012, of which, Alliander received € 15.3 million.

Group company Endinet has transferred its public lighting activities to the joint venture Ziut B.V., with effect from 1 January 2012.

Also with effect from 1 January 2012, Alliander has taken a stake of 21.25% in The New Motion. This company develops charging products for electric vehicles which can easily be installed in any location, providing a smart solution. The investment amounts to € 1.7 million.

Company financial statements

Company balance sheet as at 31 December, before appropriation of profit

€ million	Note	2011		2010	
Non-current assets					
Property, plant and equipment	37	188		182	
Intangible assets	38	104		104	
Investments in subsidiaries and associates	39	3,314		3,066	
Other financial assets	40	96		76	
Total non-current assets			**3,702**		**3,428**
Current assets					
Other receivables		14		17	
Other financial assets		295		125	
Receivables from subsidiaries		1,215		-	
Cash and cash equivalents	41	104		487	
Total current assets			**1,628**		**629**
Total assets			**5,330**		**4,057**
Equity	42				
Share capital		684		684	
Share premium		671		671	
Subordinated perpetual bond[1]		494		494	
Hedge reserve[1]		-5		-12	
Revaluation reserve[1]		-		-7	
Other reserves		984		854	
Profit after tax		251		222	
Total equity			**3,079**		**2,906**
Provisions	43		**68**		**72**
Non-current liabilities	44				
Subordinated loans		98		102	
Other long-term loans		1,318		4	
Total non-current liabilities			**1,416**		**106**
Current liabilities					
Liabilities to subsidiaries		-		667	
Current and accrued liabilities		767		306	
Total current liabilities			**767**		**973**
Total equity and liabilities			**5,330**		**4,057**

1 The hedge reserve, the revaluation reserve and the subordinated perpetual bond are not distributable.

Company income statement

€ million	Note	2011	2010
Other income less expenses after tax	46	1	-49
Result of subsidiaries and associates after taxation		250	271
Net profit after tax		**251**	**222**

Notes to the company financial statements

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.

On 17 June 2011, the deed formalising the legal merger of Alliander N.V. (surviving entity) and Alliander Finance B.V. (disappearing entity) was executed. The merger means that all rights and obligations of Alliander Finance B.V. (including all liabilities in respect of the issued bonds (EMTN programme) listed on the Luxembourg Stock Exchange and on Euronext Amsterdam) are transferred under universal title to Alliander N.V. This means that, with effect from the above-mentioned date, the total liability relating to bonds in issue (carrying amount € 2,039 million) will be recognised in the balance sheet of Alliander N.V.

Note 37 Property, plant and equipment

Property, plant and equipment

€ million	Land and buildings	Other plant and equipment	Assets under construction	**Total**
Historical cost	138	209	39	**386**
Accumulated depreciation and impairment	-65	-141	-	**-206**
Carrying amount as at 1 January 2010	**73**	**68**	**39**	**180**
Movements 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**
Movements 2011				
Investments	-	1	47	**48**
Divestments	-	-1	-1	**-2**
Depreciation	-4	-36	-	**-40**
Transfers and other movements	-	40	-40	-
Total	**-4**	**4**	**6**	**6**
Carrying amount as at 31 December 2011				
Historical cost	154	208	22	384
Accumulated depreciation and impairment	-73	-123	-	-196
Carrying amount as at 31 December 2011	**81**	**85**	**22**	**188**

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 2010	**2,400**	**50**	**2,450**
Movements 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**
Other movements	-	1	**1**
Total	**611**	**5**	**616**
Carrying amount as at 31 December 2010	**3,011**	**55**	**3,066**
Deconsolidations			
Movements 2011			
Dividends received	-	-1	**-1**
Result for the year	251	-1	**250**
Internal transfers	-	-1	**-1**
Deconsolidations	-7	-	**-7**
Movement in revaluation reserve	7	-	**7**
Other movements	1	-1	-
Total	**252**	**-4**	**248**
Carrying amount as at 31 December 2011	**3,263**	**51**	**3,314**

Included in the share in the results of subsidiaries, associates and joint ventures for 2011 are impairment losses of € 8 million relating to the joint venture Ziut B.V. In 2011, an amount of € 1 million (2010: € 5 million) was received in dividends from subsidiaries, associates and joint ventures. The deconsolidation in 2011 relates to Alliander Finance B.V. In 2011, this company was merged with Alliander N.V., with Alliander N.V. as acquiring company.

The investments in 2010 relate to Endinet (€ 4 million) and Stam (€ 4 million). Including the goodwill, the total purchase price for the two companies was € 112 million. For more information, see note [1]. The issue of share capital in 2010 mainly related to Endinet and Alliander AG to strengthen their equity positions. 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 2010	**8**	**4**	**12**
Movements 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**
Movements 2011			
New receivable	-	15	**15**
Realised temporary differences	-1	-	**-1**
Tax losses carried forward	22	-	**22**
Loans paid	-	-16	-16
Total	**21**	**-1**	**20**
Carrying amount as at 31 December 2011	**60**	**36**	**96**

Note 41 Cash and cash equivalents

The cash and cash equivalents balance at the end of 2011 did not include any restricted cash (2010: nil).

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	Environ-mental restoration provision	Other provisions	Total
Carrying amount as at 1 January 2010	9	8	42	14	5	78
Movements 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
Movements 2011						
Released	-1	-2	-	-	-	**-3**
Added		3	9	2	3	**17**
Utilised	-2	-4	-11	-	-2	**-19**
Interest	-	-	2	-	-	**2**
Actuarial gains and losses recognised immediately	-	1	-1	-	-	**-**
Major curtailments and settlements	2	-1	-	-2	-	**-1**
Total	**-1**	**-3**	**-1**	**-**	**1**	**-4**
Carrying amount as at 31 December 2011	5	10	37	11	5	68

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. As at year-end 2011, the reorganisation provision amounted to € 10 million (2010: € 13 million). Other employee provisions mainly consists of the provision for long-service benefits (paid to employees who have completed 10, 20, 30,40 and 50 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 provision for environmental restoration costs relates to expected obligations with regard to soil pollution.

Note 44 Non-current liabilities

Interest-bearing debt

€ million	2011	2010
Carrying amount as at 1 January	135	178
Movements		
Merger Alliander Finance B.V.	2,039	24
Repayments	-253	-67
Total	**1,786**	**-43**
Carrying amount as at 31 December	1,921	135

Interest rates and repayments on long-term liabilities were as follows:

Long-term interest-bearing debt short-term part

	Effective interest rate		Current portion		Non-current portion	
€ million	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Subordinated loans	8.8%	8.6%	3	2	98	102
Private and green loans	3.3%	1.9%	2	27	24	3
Medium Term Notes	4.6%	4.7%	500	-	1,292	-
Banks	8.2%	8.2%	-	-	2	1
Carrying amount as at 31 December			**505**	**29**	**1,416**	**106**

Subordinated loans

These loans were provided by shareholders and are subordinate 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 network operators 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 2011, Alliander had issued parent company guarantees amounting to € 32 million (2010: € 33 million). Bank guarantees amounting to € 2 million had been issued on Alliander's behalf as at year-end 2011 (2010: € 10 million). As at year-end 2011, Alliander had also given guarantees totalling € 8 million relating to employees' mortgages (2010: € 19 million).

Note 46 Other income less expenses after tax

Net other income and expenses after tax was an income of € 1 million (2010: € 49 million expense), mainly relating to company-wide activities at holding company level.

Remuneration of the Management Board and the Supervisory Board

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 133 to 134 of the 2011 consolidated financial statements.

Arnhem, 7 March 2012

The Management Board
P.C. Molengraaf (chairman)
M.R. van Lieshout

Supervisory Board
E. M. d'Hondt (chairman)
F. C. W. Briët
Ms B. J. Irik
Ms J. G. van der Linde
Mrs 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 2011

The Management Board has determined, with the approval of the Supervisory Board, to add € 138.0 million of the profit to other reserves. The remaining profit of € 113.0 million is at the disposal of the General Meeting of Shareholders. This equates to 45% of profit after taxation, excluding incidental items after tax that did not generate cash flows in the 2011 financial year. Also taken into account is the requirement formulated by the Minister in connection with the unbundling, limiting the dividend to a maximum of 45% of the profit after tax. This dividend limit applies until 1 January 2014.

Independent auditors' report

To the General Meeting of Shareholders of Alliander N.V.

Report on the financial statements

We have audited the accompanying financial statements 2011 of Alliander N.V., Arnhem as set out on pages 92 to 156. 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 2011, the consolidated income statement, the consolidated statements of comprehensive income, the consolidated statement of changes in equity and the consolidated statement in 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 2011, 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 auditors' 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 2011, 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 2011, 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 of 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, 7 March 2012
PricewaterhouseCoopers Accountants N.V.

Originally signed by
J.A.M. Stael RA

Events after balance sheet date

Alliander holds an interest of 25.4% in N.V. KEMA (KEMA) . On 28 February 2012, an agreement was signed under which almost all the other shareholders have sold their stakes in KEMA to the Norwegian company DNV. Alliander and DNV also signed an agreement on the same date on the basis of which Alliander will be able to transfer the shares which it holds to DNV in due course. The agreement gives Alliander a put option enabling the company to sell its interest in KEMA for an already agreed price at some time in the next few years. For its part, DNV has a call option conferring the right to buy Alliander's shareholding in KEMA at a similarly agreed price.

As part of this transaction, KEMA paid a dividend of € 60 million on 28 February 2012, of which, Alliander received € 15.3 million.

Group company Endinet has transferred its public lighting activities to the joint venture Ziut B.V., with effect from 1 January 2012.
Also with effect from 1 January 2012, Alliander has taken a stake of 21.25% in The New Motion. This company develops charging products for electric vehicles which can easily be installed in any location, providing a smart solution. The investment amounts to € 1.7 million.

Significant subsidiaries and other participations

Significant subsidiaries and other associates

As at 31 December 2011

Significant consolidated subsidiaries	Registered office	%
Liander N.V.*	Arnhem	100%
- Liander Infra Oost N.V.*	Arnhem	100%
- Liander Infra West N.V.*	Amsterdam	100%
Liandon B.V.*	Duiven	100%
Stam Heerhugowaard Holding B.V.*	Heerhugowaard	100%
Endinet B.V.*	Eindhoven	100%
Verlian B.V.	Arnhem	100%
Alliander Telecom N.V.*	Amsterdam	100%
Alliander Participaties B.V.*	Arnhem	100%
Alliander AG	Berlin	100%
- Alliander Netz Heinsberg AG	Heinsberg	100%
- Alliander Stadtlicht GmbH	Berlin	100%
- Alliander Netz Osthavelland GmbH	Brieselang	100%
- Alliander Netzbetrieb Hennigsdorf GmbH	Hennigsdorf	100%
Other participations (non-consolidated)		
Ziut B.V.		53%
Reddyn B.V.		50%
N.V. KEMA		25%
Plugwise Holding B.V.		17%
EDSN B.V.		15%
Locamation Beheer B.V.		14%

* Alliander N.V. has issued a Section 403 statement of liability for these subsidiaries.

A complete list of investments in subsidiaries, other associates and joint ventures, as required by sections 379 and 414 of Book 2 Title 9 of the Netherlands Civil Code, is filed with the Chamber of Commerce in Arnhem.

activities of the committee of shareholders in 2011

5

Other

Pursuant to Sections 158(10), 159(3) and 161(2) of Book 2 of the Dutch Civil Code, the General Meeting of Shareholders may transfer its powers concerning the recommendation, appointment and dismissal of members of the Supervisory Board to the Committee of Shareholders ('the Committee') for a maximum of two years and may withdraw any delegation of these powers at any time. In addition, the Committee 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 12 May 2010, the General Meeting of Shareholders resolved to continue the Committee of Shareholders for a period of two years; in other words, until after the end of the annual General Meeting of Shareholders in 2012. At the General Meeting of Shareholders in 2012 the Management Board is expected once again to appoint a Committee of Shareholders, pursuant to Section 158(10) of Book 2 of the Dutch Civil Code.

At the end of 2011, the Committee comprised:

- J. Bond, on behalf of the province of Noord-Holland
- Ms C. Gehrels, on behalf of the municipality of Amsterdam;
- 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;
- J. Markink, on behalf of the province of Gelderland;
- R. Strijk, on behalf of all former 'EWR' municipalities
- Ms J.A. de Vries, on behalf of the province of Friesland

Activities of the Committee

During the year under review the Supervisory Board consulted the Committee of Shareholders in writing on one occasion on the appointment and reappointment of Supervisory Board members. In addition the Committee held consultations on one occasion with the Selection, Appointment and Remuneration Committee of the Supervisory Board in preparation for the General Meeting of Shareholders on 12 May 2011.

Messrs Briët and Van Winkelen resigned from the Supervisory Board by rotation at the end of the General Meeting of Shareholders on 12 May 2011. Both gentlemen indicated that they were prepared to be considered for reappointment for a further period of four years. The Supervisory Board informed the Committee of the two vacancies and the related profiles by letter of 15 February 2011. Rather than having an enhanced right of recommendation[1] in respect of the two vacancies, the Committee had only an ordinary right of recommendation and made it known that it did not wish to make use of this latter right on this occasion.

The Committee's consultations with the Selection, Appointment and Remuneration Committee of the Supervisory Board in preparation for the General Meeting of Shareholders on 12 May 2011 were held on 28 March 2011. The subjects discussed included the extent to which the short- and long-term objectives established in respect of the variable remuneration of Management Board members were achieved in 2010. The short-term objectives for 2011 and the long-term objectives for 2011 - 2013 were also discussed, as was the remuneration of members of the Supervisory Board. Lastly, the Remuneration Report for 2010 and the agenda for the General Meeting of Shareholders to be held on 12 May 2011 were discussed.

Arnhem, 7 March 2012
Committee of Shareholders

1 The Central Works Council and the Committee of Shareholders have an enhanced right of recommendation in respect of nominations for one third of the members of the Supervisory Board. This means that the Supervisory Board will propose a candidate nominated by the Central Works Council or Committee of Shareholders unless the Supervisory Board objects to the person recommended. This enhanced right of recommendation applies to every vacancy on the Supervisory Board arising through the resignation of a member of the Supervisory Board appointed as a result of the enhanced right of recommendation.

in dialogue with stakeholders

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. As in previous years we performed a test of materiality during the year under review to decide on the topics and issues to include in this report. The materiality of a subject determines whether it is of sufficient significance to merit extended or limited discussion in this report. The ten most important themes are set out in the following table.

There are a number of changes in this year's materiality analysis compared with the previous year's analysis.

- 'Future energy supply' has been divided into various sub-topics, with the sub-topics of 'smart meters', 'smart grids' and 'innovation' now in the top ten of materiality themes;
- Last year 'Labour market/Ageing' was just outside the top ten, but is this year seen as more important.
- 'Safety of infrastructure' is now also seen as more important and has risen from sixth position in the list to fourth.
- 'Supplier chain responsibility', 'safety of operations' and 'diversity of the workforce' came just outside the top ten this year.

Materiality analysis – priorities

Subject	Description	Stakeholder(s)	Approach	Section
1 Reliability of supply	Uninterrupted availability of energy is of great importance to society. Any disruptions to supply have an immediate impact on our stakeholders' interests.	Customers Shareholders Regulators	To meet the Office of Energy Regulation standard; aim to reduce number of interruption minutes	Introduction Customers
2 Energy savings	Saving energy saves money and is a first step towards sustainability. Alliander provides information and data to help stakeholders save energy.	Customers Central and local government General public	Energy in View, E-atlas, Mapping your Office, Plugwise, Bonnie and Blitz, Block by Block, Green Deals	Customers Society
3 Smart meters	Smart meters support the transition to the energy supply of the future, provide insight into the voltage quality and help customers gain insight into their energy consumption.	Customers Lenders Chain partners	Pilots with various stakeholders Introduction of 'The Energy Stick'	Customers Society
4 Safety of infrastructure	Following incidents in the gas network and grey cast-iron gas pipes, stakeholders understand the importance of our approach.	Safety regulators, Customers, General public	Replace grey cast-iron gas pipes. More frequent investigations of gas leaks	Customers Society
5 Customer satisfaction	Customers can count on receiving excellent service and communications and on any issues being dealt with properly.	Customers Shareholders	Text messaging service, actively approaching customers for feedback, benchmark scores	Customers
6 Smart grids	Align energy infrastructure with changes in energy supply, market relationships and changing demand for energy in reliable, efficient and safe manner.	Customers Safety regulators	Telecommunications network, installation of SAS sensors, digitalise substations	Customers
7 CO_2	Climate change is a global problem. Our CO_2 footprint shows how much CO_2 (or equivalents) Alliander emits. Alliander aims to be CO_2 neutral by 2015.	Non-governmental organisations Shareholders	Replace grey cast-iron gas pipes, more frequent investigations of gas leaks, investigate opportunities for own generating and more sustainable operations	Society
8 Privacy	Consumer Association has objected to possible privacy aspects of information exchanged by the smart meter.	Customers	Legislation on smart meters Privacy policy and certificate	Customers Transparency
9 Labour market/ Ageing	As well as an ageing society, fewer students are studying technical subjects and so there is a growing shortage of technically skilled staff.	Employees General public Educational institutions	Devising teaching materials and setting up promotional campaigns and alliances with educational institutions	Employees
10 Innovation	Changing energy landscape requires Alliander to develop new technologies and solutions. Alliander's ambition is to play a pioneering role in energy transition.	Customers General public Chain partners	Participation in the Smart Energy Collective and Urgenda, participation in New Motion and Locamation	Customers Society

Alliander in direct interaction with stakeholders in society

In 2011 we held both regular consultations and ad hoc dialogues with our stakeholders. Various topics were discussed with employee, customer, shareholder and society representatives during the year. In addition to our existing stakeholder relationships, we are using our materiality tests to identify the most appropriate stakeholder representatives for a dialogue with Alliander. The most important considerations in this respect are commitment, size and willingness to engage in a dialogue and expertise.

Our interaction with stakeholders is summarised below.

Stakeholder	Organisation	Interaction	Objective	Section
Consumers	Customer Council Ombudsman Consumer organisations	Formal consultations (5 x per year) Complaints and mediation (case by case) Qualitative research (various forms) Dialogue (various forms)	Collaboration, dialogue/ relationship management and improved service	Customers
Business customers	Sector organisations	Dialogue/ relationship management (various forms)	Collaboration, dialogue/ relationship management and improved service	Customers
Employees	Employee survey Employee representation Tension Lianne Staff association	Quantitative research (per quarter) Formal consultations (monthly) Dialogue/workshops (various) Alliander Expedition (various) Employee associations	Participation, dialogue and employee commitment	Employees
Government	Provinces and municipalities	Consultation, collaboration and projects (ad hoc projects)	To align climate and environmental plans and projects	Customers
	Central government organisations	Consultation, discussions and exchanges of views (ad hoc projects)	To promote expression of interest and pro-active dialogue	Customers
Societal organisations	Nature and environmental organisations	Consultation and dialogue on project structures and sustainability topics (ad hoc projects)	To facilitate supply of renewable energy	Customers
	Relationships with housing associations, developers and businesses	Agreements, participation in associations and foundations (multiple)	Participation and dialogue/ relationship management	Customers
Suppliers	Contractors and industry, suppliers of goods and services	Contractors' Day (1 x per year), Suppliers' Days Themed consultations CSR consultations	Collaboration and dialogue/ relationship management	Society
Regulators	Netherlands Competition Authority, Office of Energy Regulation	Periodic meetings to discuss topical subjects and issues. Standard and ad hoc requests for information	To inform, exchange and explain	Customers
	State Supervision of Mines Dutch Safety Board	Periodic meetings to discuss topical subjects and issues. Standard and ad hoc requests for information	To inform, exchange and explain	Customers
Knowledge institutions	Educational institutes and knowledge organisations	Collaboration with Radboud University, HAN University of Applied Science and Regional Training Centres	Knowledge exchange and partnerships	Employees Society
Multi-stakeholder and network organisations	Urgenda, Kenniskring Amsterdam, CEN Standards Committee (ISO 26000), MVO Nederland (Dutch national CSR knowledge and network organisation)	Participation in management boards, management meetings and periodic sponsoring	Collaboration with knowledge institutions, businesses and government organisations to promote sustainability	Society
Energy sector	Network operators E-decentraal Netbeheer Nederland	Boards (monthly) Working groups (monthly) Participation in e-laad.nl (continuous)	Knowledge exchange, partnerships, representing of interests and collaboration	Customers Society
Shareholders and lenders	Interested provinces and municipalities	General Meeting of Shareholders (at least 1 x per year), major shareholder consultations (at least 1 x per year), internships	Formal and informal consultations and insight into activities	Transparency
	Lenders, investors and credit rating agencies	Periodic consultations and reports on financial performance	Accounting and explaining	Transparency

five-year summary

Five-year summary

€ million	2011	2010[5]	2009[5]	2008[3]	2007[3]
Result					
Revenue	1,586	1,432	1,446	6,147	5,650
Total income	1,695	1,525	1,750	6,271	5,753
Total operating expenses	-1,297	-1,195	-1,259	-5,486	-4,639
Operating profit	398	330	491	785	1,114
Profit before tax from continuing operations	217	230	383	877	1,102
Profit after tax	251	222	312	765	875
Balance sheet					
Net working capital	-112	-61	-25	335	-194
Property, plant and equipment	5,575	5,402	4,638	6,969	6,072
Total assets	7,318	7,400	6,756	14,501	11,601
Equity	3,079	2,906	2,245	6,268	5,657
Total interest-bearing debt	1,931	2,184	2,225	1,221	1,312
Total financing	5,010	5,090	4,470	7,491	6,970
Capital expenditure on non-current assets	479	371	397	943	536
Cash flows					
Cash flow from operating activities	527	508	372	1,028	1,159
Cash flow from investing activities	-398	-340	-153	-1,215	-401
Cash flow from financing activities	-524	-118	-763	-523	-409
Free cash flow	129	168	152	202	736
Ratios					
Non-current interest-bearing debt as % of total interest-bearing debt	74%	99%	97%	96%	89%
ROIC	7.2%	6.9%	7.8%	10.2%	16.4%
FFO/Net debt	34.1%	39.3%	25.4%	22.5%	n.a.[1]
Interest cover	5.8	5.5	3.7	n.a.[4]	45.0
Equity as % of total assets less deferred income (solvency)	47.5%	44.3%	41.6%	48.3%	56.0%
Shares (as at 31 December)					
Number of shares issued (thousand)	136,795	136,795	136,795	136,795	136,795
Total number of shares, including unissued shares (thousand)	136,795	136,795	136,795	136,795	136,795
Other					
Electricity					
Active connections as at 31 December (thousands)	3,057	3,020	2,884	2,832	2,807
New connections (thousands)	36	40	41	44	45
Cables laid (km)	1,167	883	1,104	1,336	1,170
Gas					
Active connections as at 31 December (thousands)	2,630	2,607	2,137	2,127	2,114
New connections (thousands)	23	26	23	24	26
Mains laid (km)	206	205	194	358	333
Volumes transported					
Electricity (GWh)	30,576	30,940	29,408	32,950	32,325
Gas (million m^3)	7,039	8,746	6,138	6,232	5,791
Other					
Number of disconnections (consumer and business market)	12,134	9,551	8,223	7,226	5,965
Facilitated supplier switches (x 1,000)	744	608	538	448	386
Annual electricity outage Liander (minutes)	20.0	31.2	27.4	24.0	23,5[2]
Average number of permanent staff (fte)	5,430	4,975	4,561	4,327	9,874

1 Not reported for 2007 as there was a net cash position.
2 Concerns the outage duration, excluding the Bommelerwaard interruption.
3 The reported results for 2009 are from continuing operations, as n.v. Nuon Energy was unbundled on 30 June 2009. The figures 2008 and 2007 relate to the integrated energy company n.v. Nuon.
4 As the net finance income and expenses for the year 2008 resulted in a net gain, the interest cover ratio is not reported for 2008.
5 The figures have been adjusted for comparison purposes.

Personal details, 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

Committee of Shareholders

J. Bond, on behalf of the province of Noord-Holland
Ms C. Gehrels, on behalf of the municipality of Amsterdam
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
J. Markink, on behalf of the province of Gelderland
R. Strijk, on behalf of all former 'EWR' municipalities
Ms J.A. de Vries, on behalf of the province of Friesland

Central Works Council[1]

Until 21 December 2011	As at 21 December 2011
Ms A. Brinkman, chairman	Ms A. Brinkman, chairman
P. van der Ploeg, secretary	Ms C.M.M. Hofman, interim secretary
Ms M.C. Bouwhuis	D. Groen
M.J.H.J. Guichelaar	T. Hendriks
T. Hendriks	W.G.M. Heijsen
H.J.M. Huisman	W. Koks
B. Koop	Mrs J.L. Lette-Timmer
W. Koks	L.J. Lamboo
N. van der Meij	T. Rovers
D. Robijn	F.T. de Rijke
T. Rovers	H.J. Schoep
H.J. Schoep	M. van der Teems
G. Sixma	J.W. Thomasson
M. van der Teems	F.J.A. Welboren
J.W. Thomasson	

1 The new Central Works Council was inaugurated on 21 December 2011.

Definitions and abbreviations

Simple explanations of the various terms are provided here. You can find more information on these terms in the relevant passages in the annual report or by contacting Alliander via our website.

CAIDI

Customer Average Interruption Duration Index (average electricity outage duration per connection).

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.

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.

CO_2

Carbon dioxide. Mainly released during the burning of fossil fuels such as natural gas and coal and contributes to the greenhouse effect.

CO_2 equivalent

The effect of greenhouse gases other than CO_2 converted into CO_2 values.

Committee of Shareholders

The Committee of Shareholders as referred to in section 158 (10) Book 2 of the Dutch 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 of this (including accountability).

COSO
An international risk management model.

Energy transition
The transition from energy generation from fossil fuels to sustainable energy generation (from sun, wind or water, for example).

Free cash flow
Cash flow from operating activities less net investments in property, plant and equipment.

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 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.

GRI (Global Reporting Initiative)
Global organisation that issues guidelines for CSR reporting.

Grid losses
Grid losses comprise two components: technical grid losses and administrative grid losses. Technical grid losses refer to losses of energy in the grid that are attributable to the natural resistance of cables, transformers and other grid components, while administrative grid losses are caused by, for example, energy theft and vacancies.

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.

LTIF (Lost Time Injury Frequency)
Number of accidents leading to absenteeism times a million divided by the number of worked hours.

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.

Methane
Type of gas, chief component of natural gas.

Net interest-bearing debt
The sum of long- and short-term interest-bearing liabilities less cash, cash equivalents and investments.

Net investments
Capital expenditures less contributions received from third parties.

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.

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.

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). Implementation of the Electricity Act 1998 and the Gas Act and supervision of compliance with this legislation have been entrusted to the Office of Energy Regulation.

PCB (Polychlorinated Biphenyl)
Chemical name for chloride compound with strong heat-resistant properties.

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. These include:
- the construction, maintenance, renewal and management of connections to the electricity network 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;
- metering service for small-scale users;
- 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 customers to switch to another energy supplier, for example.

Remuneration Report
The remuneration report of the Supervisory Board concerning the remunation policy of Alliander, as drawn up by the Selection, Appointment and Remuneration Committee of the Supervisory Board.

SAIDI
System Average Interruption Duration Index.

SAIFI
System Average Interruption Frequency Index.

SASensor
A sensor-based control system for the faster localisation and resolution of interruptions in the grid.

SF_6
Sulphur hexafluoride, 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.

Smart meter
Network operators can use smart meters for remote reading of electricity and gas meters and for obtaining meter status information. In addition, the smart meter can perform remote instructions. The communication with the meter takes place via the cable network (Power Line Communication) or via GPRS.

SO_2
Sulphur dioxide, a gas that is produced by burning sulphur or substances containing sulphur (for instance coal). SO_2 is the most important cause of acid rain.

Solvency
Shareholders' equity as a percentage of total assets less deferred income.

Stakeholders
Stakeholders are individuals and groups who have any form of interest in Alliander such as employees, shareholders, customers, financiers, suppliers and public authorities.

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.

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 Dutch 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.

VCA (Contractor Safety Checklist)
Dutch guideline for safe working procedures.

Working capital
Inventories plus trade receivables and other receivables, less short-term non-interest-bearing debt and other liabilities.

General abbreviations

ABP	Pension fund for employers and employees of the Dutch government and educational service
CAO	Collective Labour Agreement
CDS	Credit Default Swap
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHP	Combined Heat and Power
CSR	Corporate Social Responsibility
CSS	Customer Satisfaction Survey
CWC	Central Works Council
E-atlas	Energy Atlas
EBIT	Earnings Before Interest and Taxes
EDSN	Energy Data Services Netherlands
ECP	Euro Commercial Paper
EMTN	Euro Medium Term Notes
EU	European Union
FIFO	First in, first out
FFO	Funds From Operations
FTE	Full Time Equivalent
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
NIAT	Net Income After Taxes
NIVRA	Netherlands Institute of Registered Accountants
NOREA	Netherlands Order of Registered EDP Auditors
OVV	Dutch Safety Board
ROIC	Return on Invested Capital
SILO	Sale in, lease out
SSM	State Supervision of Mines
US	United States
USD	United States Dollar
VIAG	Natural Gas Safety Instructions
Wbp	Personal Data Protection Act
WIA	Work and Income according to Labour Capacity Act
WON	Dutch Independent Network Operation Act
WW	Dutch Unemployment Insurance 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
kJ	Kilojoule; 1,000 J
kV	Kilovolt; 1,000 volts
kVA	Kilovolt ampère
kW	Kilowatt; 1,000 watts
kWh	Kilowatt hour
MJ	Megajoule; 1,000 kJ
MVA	Megavolt ampère
MW	Megawatt; 1,000 kW
MWh	Megawatt hour; 1,000 kWh
TJ	Tera Joule; 1,000 GJ
TWh	Terawatt hour; 1,000 GWh
W	Watt; unit of power

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