alliander

annual report 2012

connecting with tomorrow

welcome to Alliander

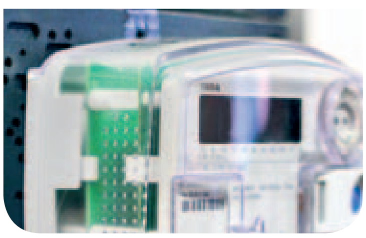
Alliander is the largest regional energy network company in the Netherlands. Our energy infrastructure transports electricity and gas to 3.3 million customers every day. In addition, we support society in its transition to sustainable forms of energy.

we are

driven to support people who live and work in our service area with daily electricity and gas.

we are committed to

delivering a reliable energy infrastructure that is both safe, affordable and freely accessible.



we aim

to offer innovative solutions for our customers on the road to a sustainable energy supply.

key figures

Number of employees	Market share	CO_2 emissions
7,140	37%	805 kton

Revenue	Customer satisfaction *Consumer market*	Customer satisfaction *Business market*
1.7 € billion	93%	87%

highlights 2012

Every day Alliander works on the energy networks to ensure a reliable and safe energy supply for our customers. This at-a-glance overview highlights the key events and results of the past year.

intelligent network on stream

The first intelligent network officially went live in Amsterdam. Some 10,000 households are connected to this electricity network, which paves the way to large-scale generation and feed-in of sustainable and decentralised energy.

introducing self-generation

Mijnhuismijnenergie.nl was launched in March by Liander. This online platform shows homeowners how they can generate their own energy, as well as the resulting savings on their energy bill.

socially engaged

We offered jobs to 75 people at a disadvantage on the labour market via Alliander's Step2Work programme.

reliability of supply remains high

Our network is highly reliable. The electricity outage duration amounted to 24.5 minutes in 2012, leading to an availability of 99.99%.

top position in employer survey

Alliander took fourth place in the Best Employer Survey 2012.

result

Net profit for 2012 amounted to € 224 million.

smart meters

Liander and Endinet are busy installing the first smart meters, with 225,000 connected in 2012.

more investments in networks

The investments in the network system increased: from € 475 million in 2011 to € 578 million in 2012.

replacement of old gas networks

Liander and Endinet are carrying out the large-scale replacement of old gas networks. In 2012, a total of 223 kilometres of grey cast-iron pipes were replaced.

gas leak in Hilversum

Mid-2012 there was a gas leak in Hilversum. Several homes were evacuated as a precaution. After an extensive independent investigation, procedures were tightened to avoid a recurrence in the future.

Key data Alliander [1]

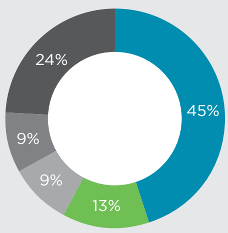
	Unit	2012	2011
Customers			
Number of consumers	in thousands	3,349	3,326
Customer satisfaction consumer market [1]	per cent	93	92
Customer satisfaction business market [1]	per cent	87	89
Average outage duration per customer [1]	min. per year	24.5	20.0
Number of connections with feed-in installations [1]	in thousands	22	11
Number of smart meters	in thousands	379	154
Society			
CO_2 emissions	ktonnes	805	836
Employees at a disadvantage on the labour market [2]	number	75	74
Waste	ktonnes	21	20
Socially responsible procurement (SRP) [3]	per cent	42	30
Employees			
Number of employees at year-end	number	7,140	6,952
Absenteeism	per cent	4.0	4.1
Lost Time Injury Frequency (LTIF), average number of accidents involving absence from work per million hours worked	number	2.0	3.2
Employee satisfaction survey score [4]	rating	8.3	8.3
Shareholders and lenders			
Revenue	€ million	1,674	1,586
Profit after tax	€ million	224	251
Total assets	€ million	7,414	7,318
Capital expenditures on property, plant and equipment	€ million	578	475
Credit rating Alliander N.V.	S&P/Moody's	A+/Aa3	A+/Aa3

1 Key data 2012 and 2011 on customer satisfaction, outage duration and number of connections with feed-in installations concern Liander.
2 Alliander provides support to people whose personal circumstances make it more difficult for them to find work.
3 The SRP percentages for 2011 and 2012 concern Alliander excluding Endinet.
4 In 2012 (unlike in 2011), employees of Endinet did not participate in Alliander's employee survey.

organisational structure

alliander
- liander
- endinet
- liandon

shareholders

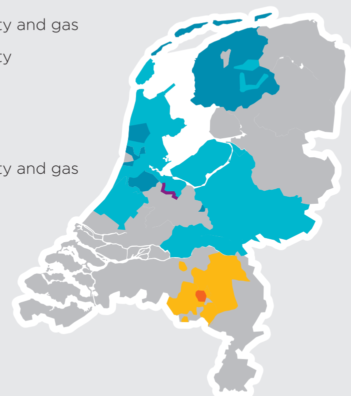


- Gelderland
- Friesland
- Noord-Holland
- Amsterdam
- Other shareholders with interests < 3%

geographical network distribution

Liander
- electricity and gas
- electricity
- gas

Endinet
- electricity and gas
- gas



about this report

In this annual report, we give an account of our activities in 2012. 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 close cohesion between our operational, financial and social activities. Alliander attaches great importance to transparency and an open dialogue with our stakeholders.

Financial and corporate social responsibility

The financial reporting takes place in accordance with the 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) and the Electric Utilities Sector Supplement. We complied with the A+ application level in the 2012 reporting year. The complete GRI table can be found in the online annual report (jaarverslag.alliander.com/2012).

Consolidation

The financial information in this annual report is consolidated for Alliander and all its subsidiaries. The Corporate Social Responsibility information is only consolidated for Alliander and the most important subsidiaries for 2012, namely Liander, Endinet and Liandon. The Employees section also contains information on Alliander AG and Stam. The Employees section also contains information on Alliander AG and Stam. This is explained in the footnotes.

Transparency Directive

Alliander applies the Transparency Directive and the provisions from the Corporate Governance Code and 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 internal and external stakeholders. They assessed the impact of social and other themes on stakeholders and the organisation in a 'materiality test'. The outcome of the materiality test formed the basis for the selection and prioritisation of topics in the annual report.

When in this report we refer to the website, information is only available in Dutch.

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Highlighted: 2012 in our regions

Alliander supports regions with their energy supply – be it for homes, greenhouses, data centres or the construction of small to medium-sized wind farms. We ensure that millions of customers can make use of electricity and gas every day. Alliander works closely with customers, regional authorities and suppliers to continue developing the energy supply of tomorrow in a focused and efficient manner. In 2012, for instance, further progress was made with the digitisation of our infrastructure to ensure the network continues operating optimally and to equip it for the growing feed-in of locally generated energy.

strategy and policy in 2012

We see that the energy landscape is changing. Our customers want to share their renewably generated energy with others – which is why Alliander is preparing its energy networks for two-way traffic. In 2012, we took new steps in the energy transition process. In this section, we provide insight into our strategic choices and activities for stakeholders.

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introduction by CEO Peter Molengraaf

As a network company, we connect energy producers and users. The rapidly-changing energy landscape is creating new challenges.

"More and more customers are generating their own energy."

Energy and ICT technologies are advancing strongly, more and more customers are generating their own energy, energy flows are becoming more complex, investments in electric transport are growing, and governments have great ambitions to reduce CO_2 emissions. Amidst these dynamics, our challenge is to connect producers and consumers of both electricity and gas in a reliable, safe and affordable manner.

Alliander wants to facilitate the transition to a more sustainable energy system. In doing so, we are helping customers to gain more insight into their energy consumption as well as supporting local initiatives of customers to produce and share their own energy. We are also busy equipping our networks to handle two-way energy flows in a step-by-step process. Old sections are being replaced, the capacity of the electricity network is being increased and smart ICT solutions are being added to improve the management and control of energy flows.

While the contours of the future energy system are already visible, the exact shape of things to come is still unknown. Learning to deal with that uncertainty is a key aspect of the energy transition. There are no blueprints for the coming decades. The energy transition is simply too complex and too far-reaching to plan far ahead. By applying innovative technologies and smart IT solutions and by working closely with customers, partners and government agencies, we are trying to anticipate trends and developments, wherever possible, in a responsible manner. All our strategic decisions and network investments are carefully assessed in the light of future energy distribution scenarios.

However, we as an organisation are not just looking to the future. After all, our customers clearly also need reliable and safe energy in the here and now. In 2012, we invested more than in previous years in network construction and maintenance, as well as in the rapid resolution of faults. No less than € 600 million was committed to the replacement and expansion of our networks. A large but necessary investment – because a solid and open energy distribution network plays a crucial role in our drive towards innovation, sustainability and new energy applications.

New energy for our customers

The figures for 2012 show a positive result. It was a year with a strong focus on reliability of supply and sustainability for our customers. In Amsterdam, a new intelligent energy network serving some 10,000 households became operational. In Nijmegen, we teamed up as a partner with the municipality and market parties to construct a heat transportation network, which will ultimately supply residual heating to more than 10,000 new homes.

While our customers are satisfied with the service we provide, continuing customisation is vital to meet their demands. This is a major challenge because, as is evident from the growing number of applications for feed-in connections to our energy networks, our customers are clearly moving with the times. In 2012 we also connected 350 new charging poles to the electricity network, thus stimulating the development of electric transport. Due to the growing number of customers investing in solar panels, applications for feed-in permission doubled. We also installed smart meters to 225,000 households, which doubled the total number of operational meters. Thanks to various pilots, we have learned how we can best offer the smart meters to customers. It is crucial, for instance, to give them online insight into their own energy consumption. Valuable lessons like these are helping us to prepare the large-scale offering of smart meters in 2014.

Achieving more together

We firmly believe that better results can be achieved by taking advantage of each other's talents, knowledge and potential. In our complex playing field, we need many reliable partners to meet the energy needs of today and tomorrow. Together with municipalities, we took initiatives aimed at encouraging residents to become involved in new energy saving and sustainability ideas. And we are engaged in an open dialogue with ministries as well as provincial and local authorities to help give direction and shape to the energy policy at national, regional and local level. In 2012, our energetic pursuit of cooperation also led to partnerships aimed at promoting technological innovations and new forms of service. Furthermore, we actively contributed to knowledge sharing and development by participating in the initiation of the European Network for Cyber Security and the creation of the Watt Connects Inspiration Centre in Arnhem.

In other areas, too, we are seeking to achieve more together. Within the procurement chains of our organisation, we involve our partners and suppliers in efforts to create more sustainable and socially responsible purchasing solutions. And in the labour market, we worked intensively in 2012 with contractors, training institutes and ROC regional training centres to find solutions for the growing scarcity of skilled technicians. In all these diverse ways, we and our partners are engaged in a continuous search for innovations to make our energy supply even more affordable and reliable.

Operational Excellence
Efficiency is a key focus in our work. By further improving our operational management, we will be better able to carry out our many projects and deal with the vast amount of work ahead. It will also help optimise safety, quality and customer satisfaction throughout our operations. In October 2012, several teams started using the LEAN method to carry out their daily work with ever-greater efficiency. Processes are discussed on a day-to-day basis to achieve permanent improvements. Operational Excellence means, above all, doing the job without needing to redo or repair things later. That is not only good for the customer, but first time right reduces the workload and creates better cooperation with partners in the chain.

"While the contours of the future energy system are already visible, the exact shape of things to come is still unknown. Learning to deal with that uncertainty is a key aspect of the energy transition."

Our operations

The employees of Alliander make our company what it is. Working on energy infrastructures demands great skill and concentration. And of course safety is a priority in our work. The number of accidents with injury remained well within the set limit, but every accident is one too many. Safety at work therefore continues to demand our full and undivided attention.

The average electricity outage duration was 24.5 minutes in 2012. Despite having one of the most reliable networks in the world, we failed to meet our own target of 22 minutes as a result of several major outages at the end of 2012. In the coming years, we aim to achieve a further structural reduction in the outage duration in our networks. Another concern is that a number of investment projects have fallen behind schedule due to protracted consultation procedures and delayed decision-making. Together with all parties involved, we will continue our efforts to bring these vital network renewal processes to a successful completion. In connection with our 'first time right' commitment, we focused more intensively on improving our operational performance in 2012. That is good for our customers, reduces the workload and creates better cooperation with partners in the chain.

Operating in the midst of a complex energy transition, we are more dependent than ever on the professional skills, commitment and work ethic of our employees. By creating good, healthy and safe working conditions and by offering plenty of training opportunities, we encourage our employees to develop and deploy their competences and reach their full potential within our company.

A splendid challenge

Securing a reliable and sustainable energy supply is one of the biggest challenges our society faces today. In 2012, we were once again encouraged to see how many people, both inside and outside our company, are keen to help make this happen. By looking ahead together, remaining open to each other's potential and becoming more energy-conscious, we can rise to this challenge.

As in 2012, we will continue in the coming years to drive the energy transition forward with great passion and ambition.

Peter Molengraaf
CEO

profile

Alliander operates energy networks which distribute gas and electricity to large parts of the Netherlands. With our work we facilitate businesses, homes, transport and recreation. We want to strengthen and empower society by providing free access to the energy infrastructure and giving our customers more insight into their energy consumption. Alliander is helping to bring an open and sustainable energy market closer.

What Alliander does

Core tasks

Our most important task is to distribute gas and electricity to consumers, businesses and institutions. The network operators Liander and Endinet make this possible by keeping the energy networks in good condition, taking care of distribution and connecting customers to the energy networks.

In response to the rapidly changing energy landscape, we are working hard to build a future-proof and open network that can accommodate multiple energy providers. To obtain insight into society's energy ambitions at all levels, we consult with provinces, municipalities and other customers. We help them resolve their energy issues and develop complex energy infrastructures.

How we work

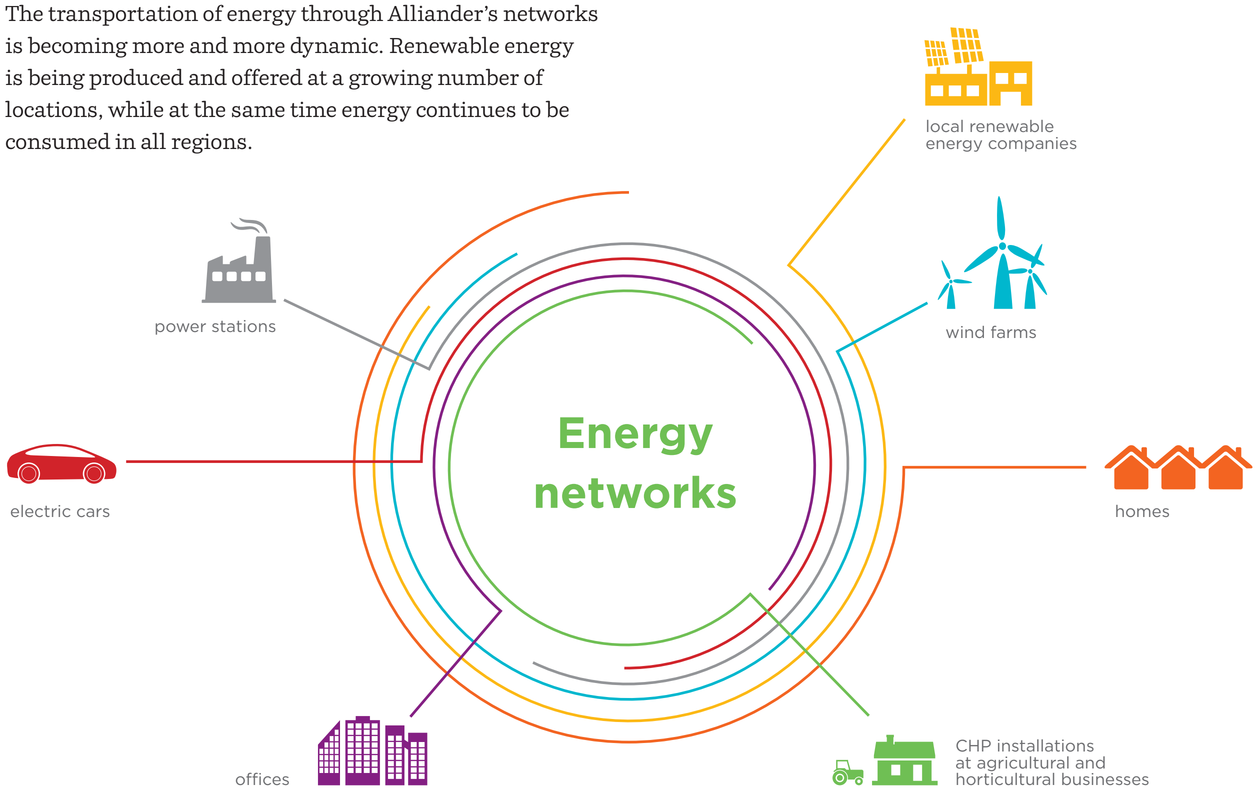
Our role in the energy chain

The transportation of energy through Alliander's networks is becoming more and more dynamic. Renewable energy is being produced and offered at a growing number of locations, while at the same time energy continues to be consumed in all regions.

The existing energy chain is still largely based on the centralised production of electricity and gas, which is supplied by TenneT and Gasunie Transport Services. However, decentralised generation is now increasingly coming to the fore. More and more customers are feeding their renewable energy surpluses from solar panels, for example of combined heat and power (CHP) installations, into our energy networks.

Liander and Endinet then transport this energy to consumers, businesses and institutions, and nowadays also to charging stations for electric vehicles.

The delivery and actual usage of electricity and gas is arranged between the customer and his energy provider. The customer is free to choose his own provider.



The organisational structure

Alliander N.V. is the holding company of our subsidiaries and group companies, including the regional network operators Liander and Endinet. Liandon is Alliander's knowledge centre and largely responsible for the technical innovations for the transportation and distribution of electricity and gas. Alliander's shareholders are Dutch provinces and municipalities. The largest shareholders are the provinces of Gelderland, Friesland, Noord-Holland and the municipality of Amsterdam. More information about the legal structure of Alliander can be found at alliander.com.

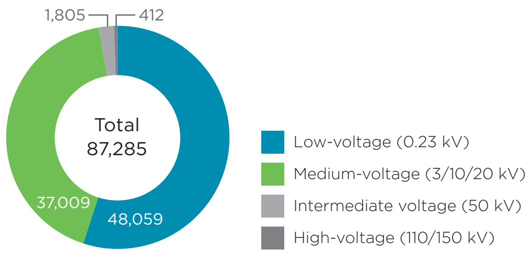
The regional distribution of energy in the Netherlands is the exclusive responsibility of network operators. This is laid down in the Dutch Electricity Act 1998 (E-Act) and the Gas Act (G-Act). Network management is the most important activity within Alliander. About 90% of the revenue comes from connections, meters and the distribution of energy by Liander and Endinet. The other 10% comes from activities involving the construction and maintenance of complex infrastructures by Liandon, as well as other activities.

Network Operations Electricity

3,087,000 Active electricity connections

31,000 New electricity connections

Size of electricity transport network (in km)



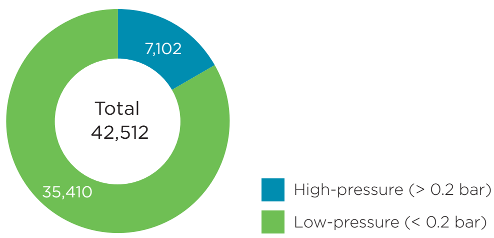
Transported electricity volume (GWh): 30,522

Network Operations Gas

2,644,000 Active gas connections

22,000 New gas connections

Size of gas transport network (in km)



Transported gas volume (million m³): 7,461

trends in energy

Many developments in society influence our energy system. People are living longer, the urban population is growing and society operates virtually around the clock. Moreover, technology is an increasingly pervasive presence in our daily lives. These developments also have a downside, particularly if you look at energy. Demand for fossil fuels and raw materials is growing, leading to rising prices, uncertain availability and harmful effects on the environment.

To continue supplying society with sustainable, affordable and reliable energy in the future, we urgently need to adopt a new approach to the way we generate and use energy. This 'energy transition' also has implications for Alliander's role and the activities we are required to perform. We see it as our duty to society to facilitate the transition to a sustainable energy supply. Looking at the energy supply and the transition that is taking place, Alliander has identified five key trends.

Increase in decentralised energy generation

More and more consumers and businesses will be producing their own electricity, heating and biogas. They can do this individually or collectively (with neighbours or in cooperatives). Solar panels are particularly popular, as lower prices now make them economically profitable. Homes and buildings are also increasingly using solar and thermal heating as an alternative to natural gas.

New energy mix

Our customers' energy consumption patterns will look very different in the future. We currently use fossil fuels for transport (petrol, gas and diesel) and heating (natural gas). Moving forward, more use will be made of electricity, particularly when electric transport becomes more commonplace. The share of renewable energy will also rise through, for example, the use of solar boilers and heat pumps for spatial heating.

Strong impact of new technology

Thanks to technological developments and IT, appliances are becoming more energy-efficient and the number of smart applications is constantly expanding. Insight into energy flows and our energy consumption is improving. For instance, the smart meter, in combination with smart applications, enables consumers and businesses to see exactly how much energy they consume and manage their energy more effectively. Alliander is investing in new technologies that make it possible to monitor the energy networks, control the energy flows and feed energy into the network.

More efficient energy consumption

Alongside the increasing number of electric applications, such as the electric car, houses are also becoming more energy-efficient. New buildings are designed to use less energy and, in due course, can even be made energy-neutral. Greenhouses, too, are becoming more energy-efficient and some actually produce more energy than they use. Meanwhile, industrial production processes are becoming more economical in their energy consumption.

Increased opportunities for energy storage

Innovative technologies make it possible to store electricity and other forms of energy. The storage capacity of batteries is also being steadily expanded. This opens up new opportunities for storing renewable energy, which has great implications for our future energy supply. In addition, new storage options for other forms of energy, such as (bio) gas and heat, are constantly being developed.

Trends in energy form an integral part in the determination of Alliander's strategic choices.

mission, vision & strategy

Our customers count on safe and reliable energy. At the same time, it is necessary to ensure energy remains affordable and becomes more sustainable in the longer term. Alliander contributes to this by efficiently managing the energy networks, helping customers with local energy production and supporting regional sustainability initiatives. In short, we help customers with their transition towards a sustainable energy supply.

Mission
We strive for a better society in the regions we serve.

Vision
The energy landscape is changing. Energy is now produced both centrally and locally, and new energy sources and applications are emerging. New services are arising in such fields as electric transport, energy saving, energy management and local generation. This places different demands on our infrastructure and the provision of information. Alliander aims to play an enabling role in these changes. We facilitate an open energy market and support the sustainable energy choices of our customers and the regions where we operate.

Strategy
We are working closely with our customers to achieve the switch to renewable energy sources. Alliander is continuously improving its performance by stimulating the development and professionalism of our employees.

Our strategic starting points

1. Continuously optimise our performance on services, security of supply and costs.
2. Improve management of energy flows and insight into energy consumption.
3. Help customers save energy and switch over to renewable energy sources.

Implementation of the strategy

Alliander's strategy describes how we aim to create long-term value for our stakeholders. The strategic objectives for each stakeholder are outlined below. The strategy also forms an integral part of our business plans and has been translated into short-term objectives in the Alliander year plan. More information about the implementation of our strategy and management by objectives can be found on the website (jaarverslag.alliander.com/2012).

Long-term objectives per stakeholder

	Customers	Society	Employees	Shareholders and lenders
ambitions	We are the number one service provider in the customer's eyes We facilitate the transition to a sustainable energy supply	We are the natural partner in the development and implementation of energy policy We are a socially responsible company, with an eye for the environment and society	We are an innovative and successful company that works in a safe, focused and driven manner to create a better society	We are a robust and socially & economically responsible investment
strategic objectives	The best service, quality and costs 24/7 Help with energy saving Promote market developments towards a sustainable energy supply	Working together and participating in regional sustainable and social initiatives Investing in the reduction of CO_2 emissions A responsible procurement policy	Being a top employer Developing future-oriented knowledge and competences	Continuously outperforming the sector in the field of operational excellence Solid results in line with the regulated permitted profit

For customers: the best service today and tomorrow

Customers are entitled to the best service and quality at an affordable price. In addition, we support our customers with their needs and issues concerning energy transport. Alliander invests in innovations and improvements in order to operate the energy networks more efficiently. This leads to greater reliability and lower costs. In addition, we are preparing our organisation and the energy networks to facilitate a sustainable energy supply. Thanks to the increased use of solar panels, wind turbines and biogas, the share of renewable, often locally-produced, energy is growing steadily. The application of information technology in our energy networks makes us better able to match fluctuations in supply and demand.

For society: partner in development and implementation of energy policy

Our customers are driving the transition to a sustainable energy supply. Examples are innovation in residential construction, mobility, and spatial planning as well as new working strategies. Alliander contributes to this process by working in the regions with cooperatives, businesses and local government. We take part in sustainability initiatives in the field of energy. Together we find innovative solutions to policy, organisational and technological challenges. Our contribution to society is also reflected in the opportunities we offer people at a disadvantage in the labour market.

For employees: an innovative, successful company

Alliander wants to be a top employer. An organisation where employees gain confidence in their professionalism and skills, enjoy their work and are proud of what they do. Working safely is paramount. To attract talent, we invest in more flexible working arrangements and contracts. In addition, we urge and enable employees to continue developing their personal and professional skills.

For shareholders and lenders: a socially and economically responsible investment

Alliander is a financially healthy company; a robust, socially and economically responsible investment. This solid foundation enables us to achieve our business and social objectives. Investments are assessed against our corporate values and financial ratios.

Alliander is actively seeking to connect with stakeholders. The various forms of interaction with our stakeholders are described in the section 'In dialogue with stakeholders'.

our challenges

Alliander actively promotes the energy transition, energy saving and a more sustainable society. We do this in dialogue with our stakeholders. Making choices for tomorrow gives rise to challenges. Fundamental choices need to be made, based on diverse interests and factors. We discuss these openly. What are the challenges we currently face?

Which investments are necessary to secure a sustainable future?

The energy world is set for change over the coming decades. But the pace and exact shape of the sustainability transition is uncertain. This poses a major challenge for network operators, who must ensure that their investments – which are made for periods of 30 years and more – are future-proof. How can Alliander, weighing up all the diverse factors, give maximum support to sustainability initiatives, while avoiding wrong or wasteful investments? We are constantly seeking the right balance, and use different future scenarios to plan the investments in our networks.

How to deal with an ageing workforce in a changing market?

Apart from guaranteeing the distribution of energy 24/7, we are simultaneously working on new and innovative solutions to make our society more sustainable, cleaner and increasingly energy-efficient. Qualified people are essential to perform these tasks. But we are confronted with an ageing population and a growing shortage of skilled technicians. The challenge for Alliander is to invest in human capital now to avoid a mismatch between the supply and demand of vital skills in the future.

How do we keep the network operations efficient amidst a dynamic energy demand?

New forms of energy are changing the dynamics in Alliander's networks. We are preparing for a considerable increase in the feed-in of locally-generated energy. We are investing in intelligent networks, which sometimes leads to early obsolescence of infrastructure. Meanwhile, we must also deal with new peaks in energy demand, for instance due to the charging of electric vehicles. Alliander's infrastructure remains as crucial as ever. But the way we operate the network must evolve with the new demands. The challenge for Alliander is to further improve the quality of the networks and add greater flexibility for customer choices in order to minimise the social costs.

You are invited to give your opinion via info@alliander.com.

objectives & results

Safety

Objectives 2012	Results 2012	Objectives 2013	Strategic objectives
LTIF (lost time injury frequency) The number of accidents leading to absenteeism decreases, so that the LTIF is 2.8 or lower.	2.0 23 accidents leading to absenteeism occurred, resulting in a LTIF of 2.0.	The LTIF is 2.6 or lower.	**Be a top employer**

Customers

Objectives 2012	Results 2012	Objectives 2013	Strategic objectives
Customer satisfaction [1] Customer satisfaction in consumer and business market continues to outperform a benchmark of Dutch network operators.	**consumer market** 101% versus benchmark **business market** 101% versus benchmark	Customer satisfaction in consumer and business market continues to outperform a benchmark of Dutch network operators.	**The best service, quality and costs 24/7** **Help with energy saving** **Stimulate market developments towards a sustainable energy supply**
Electricity outage duration [1] Maintain low outage duration. Objective for 2012 is 22 minutes.	24.5	Maintain low outage duration. Objective for 2013 is 22 minutes.	
Number of postcode areas with more than five interruptions [1] Reduce the number of postcode areas with more than five interruptions to a maximum of 25.	10 Postcode areas	The number of postcode areas with more than five interruptions is a maximum of 20.	
Data quality [1] To promote safety, reliability of supply and regulatory compliance, 90% of the information in our Operating Assets Register must be accurate and up-to-date.	97%	Concerns a specific objective for 2012.	
Quality of meter installations [1] 100% of our meter installations must be carried out in accordance with our quality requirements.	99%	100% of our meter installations must be carried out in accordance with our quality requirements.	
Progress of 25 most important projects [1] We are aiming to complete 90% of the most important projects for 2012 before year-end.	16% of the most important projects were entirely completed.	In 2013, we will again strive to complete 90% of the most important projects before year-end.	
Customers with insight into energy saving potential [1] At year-end 2012, 49% of our customers have full insight into their energy saving potential.	41% Thanks to our energy saving initiatives, 41% of our customers had full insight into their energy saving potential.	An adjusted objective is set for 2013 for Liander's contribution to energy saving among customers.	

1 Concerns Liander.

Society

Objectives 2012	Results 2012	Objectives 2013	Strategic objectives
Employees at a disadvantage on the labour market Offer work to 75 people at a disadvantage on the labour market.	75	Offer work to 80 people at a disadvantage in the labour market.	**Cooperation and participation in regional sustainable and social initiatives** **Invest in the reduction of CO_2 emissions** **A responsible procurement policy**
Socially responsible procurement [2] At least 40% of our expenditures are socially responsible.	42%	At least 45% of our expenditures are socially responsible.	
CO_2 emissions from our own operations CO_2 emissions amount to a maximum of 820 ktonnes.	805 ktonnes	CO_2 emissions amount to a maximum of 792 ktonnes.	

Employees

Objectives 2012	Results 2012	Objectives 2013	Strategic objectives
Employee survey score [2] Employee survey score of at least 8.0.	8.3	Employee survey score of at least 8.0.	**Be a top employer** **Develop future-oriented knowledge and competences**
Employee absenteeism Maximum absenteeism percentage of 4.0%.	4.0%	Maximum absenteeism percentage of 4.0%.	
Women in leadership positions At least 20% of all leadership positions are filled by women.	21%	At least 21% of all leadership positions are filled by women.	

Shareholders and lenders

Objectives 2012	Results 2012	Objectives 2013	Strategic objectives
FFO/net debt Objective: >20% Interest cover Objective: > 3.5 Net debt/(net debt + net equity) Objective: < 60% Solvency Objective: > 30%	FFO/net debt Actual: 30.9% Interest cover Actual: 6.0 Net debt/(net debt + net equity) Actual: 37.7% Solvency Actual: 49.5%	FFO/net debt Objective: >20% Interest cover Objective: > 3.5 Net debt/(net debt + net equity) Objective: < 60% Solvency Objective: > 30%	**Continuously outperform the sector in terms of costs and operational excellence** **Solid results compatible with the regulated permitted profit**
Retention of solid rating Maintain solid A rating profile.	Ratings: unchanged S&P: A+/A-1/positive outlook Moody's: Aa3/P-1/stable outlook	Maintain solid A rating profile.	

2 Concerns Alliander excluding Endinet.

in dialogue with stakeholders

Alliander recognises the interests of stakeholders. We emphatically seek to connect with them and welcome their contributions or suggestions. In 2012 the dialogue with our stakeholders continued, both on a structured and an ad hoc basis. Together with representatives of employees, customers, shareholders and civil society organisations, we discussed a broad range of subjects and themes.

Based on high-impact themes, we regularly seek to identify suitable parties for Alliander's dialogue with stakeholders. Commitment, size, willingness to enter into dialogue and expertise are crucial considerations in this respect.

Materiality

In determining the composition of this annual report, Alliander drew on input from internal and external stakeholders. They assessed the impact of social and other themes on stakeholders and the organisation in a 'materiality test'. The outcome of the materiality test formed the basis for the selection and prioritisation of topics in the annual report. Opposite is an overview of the most important themes for stakeholders.

Further information is available on the website (jaarverslag.alliander.com/2012). This site also includes an explanation of the relationship between our material themes and our objectives and results.

Most important themes for stakeholders	Explanation in report
Safety at work	Employees
Labour market/Ageing	Employees
Reliability of supply	Customers
Customer satisfaction	Customers
CO_2	Society
Energy saving	Customers/Society
Infrastructure safety	Customers
Smart grids	Customers
Innovation	Customers/Society
Privacy	Customers
Capacity planning	Customers
Regulation	Shareholders
Chain responsibility	Customers
Solid rating	Shareholders
Smart meters	Customers

	Organisation	Interaction	Objective	Chapter
Customers – consumers	Web panel Ombudsman Customer panels Consumer organisations	Digital panel Complaints and mediation (case by case) Qualitative research (various forms) Dialogue (various forms)	Collaboration, dialogue/ relationship management and improved service	Customers
Customers – business customers	Sector organisations	Dialogue/relationship management (various forms)	Collaboration, dialogue/ relationship management and improved service	Customers
Energy sector	Network operators E-decentraal Netbeheer Nederland	Boards (monthly) Working groups (monthly) Stichting e-laad (continuous)	Knowledge exchange, partnerships, representation of interests, collaboration	Customers, Society
Public authorities	Provinces and municipalities	Consultation, collaboration and projects (ad hoc projects)	Align climate and environmental plans and projects	Customers
	Central government	Consultation, discussions and exchange of views (ad hoc projects)	Promote expression of interest and pro active dialogue	Society
Civil Society organisations	Nature and environmental organisations	Consultation and dialogue about project construction and sustainability topics (ad hoc projects)	Facilitate renewable energy supply	Customers
	Housing associations, developers and businesses	Discussions, participation in associations and foundations (frequent)	Participation and dialogue/ relationship management	Customers
Multi-stakeholder and network organisations	Urgenda Kenniskring Amsterdam NEN Standards Committee ISO 26000 MVO Nederland	Participation in management boards, meetings, periodic sponsoring	Collaboration with knowledge institutions, businesses and government organisations, promotion of sustainability	Society
Suppliers	Contractors and industry, suppliers of goods and services	Contractors' Day (once a year), Suppliers' Days, Themed consultations, CSR consultations	Collaboration and dialogue/ relationship management	Society
Employees	Employee survey Employee representation Young employee network Tension Female employee network Lianne Staff association	Quantitative research (every half year) Formal consultations (monthly) Dialogue/workshops/meetings/ Alliander Expedition (various) Employee associations	Participation, dialogue and employee commitment	Employees
Knowledge institutions	Educational institutions and knowledge organisations	Collaboration with Radboud University, HAN University of Applied Science and Regional Training Centres (periodic)	Knowledge exchange and partnerships	Employees, Society
Regulators	Netherlands Competition Authority Office of Energy Regulation	Periodic meetings about topical subjects and issues Standard and ad hoc requests for information	Inform, exchange and explain	Customers
	State Supervision of Mines Dutch Safety Board	Periodic meetings about topical subjects and issues Standard and ad hoc requests for information	Inform, exchange and explain	Customers
Shareholders and lenders	Provinces and municipalities	General meeting of Shareholders (at least 1x per year), major shareholder consultations (at least 1x per year), internships	Formal and informal consultations, knowledge and insight into activities	Shareholders and lenders
	Lenders, investors and credit rating agencies	Periodic consultations and reports on financial performance	Accounting and explaining	Shareholders and lenders

customers

Millions of customers count on the continuous availability of power and gas at all times. Network operators Liander and Endinet worked hard in 2012 to maintain a good service and a safe and reliable energy network. But we also continued to prepare for a future in which energy generation and consumption patterns are set to undergo major change.

Results

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

99% Quality of meter installations
in accordance with our quality requirements

101% Customer satisfaction business market
versus a benchmark of Dutch network operators

41% Customers with full insight into energy-saving potential

24.5 Electricity outage duration
per customer in minutes

97% Data quality in our Operating Assets Register

10 Postcode areas with more than 5 interruptions per year

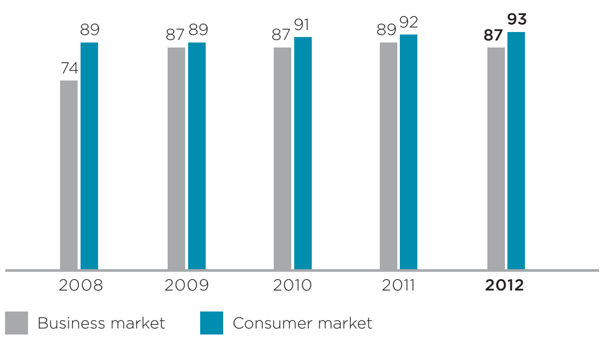
16% Progress on 25 most important projects

Service

Customer satisfaction

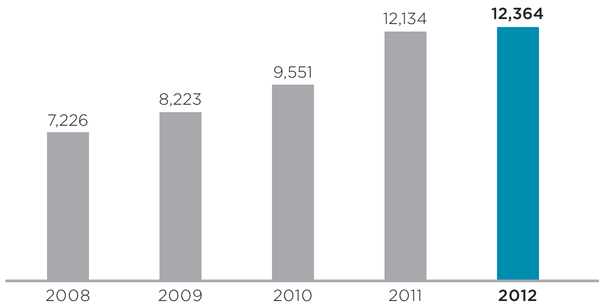
The satisfaction of our customers determines the success of our company. General customer satisfaction with our network operators remained stable at a high level and beat the benchmark in 2012. During the year, we improved our communication via social media. Liander and Endinet respond to feedback from customers about the services, and proactively inform customers about power and gas interruptions. We also communicate with our customers about interruptions via text message. In total, the text service was used over 40,000 times by customers. These new direct ways of communicating have proved very successful in enhancing our ability to handle customer queries and comments. Liander has therefore decided, after due consideration and consultation, to stop the traditional Customer Council and start a web panel.

Customer satisfaction trend [1,2]/*in percentages*



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

Number of disconnections [1]



1 The number of disconnections (figures to the end of 2009 exclude Endinet because of acquisition in 2010) relates to the number of disconnected properties due to e.g. termination of supply, payment arrears and fraud.

Access to energy
We connect our customers as quickly as possible to the energy networks so that they can use power and gas as soon as they have signed a contract with an energy supplier. When suppliers end the contract, we advise customers to immediately look for a new supplier in order to avoid disconnection. Despite this policy, Liander and Endinet were forced to disconnect 12,364 customers from power and/or gas in 2012.

Safety
The safety of our energy networks is our first priority. The network operators Liander and Endinet are taking measures to further improve the safety of employees and customers. We also make customers aware of the website energieveilig.nl.

Asbestos
For many years, asbestos-containing materials were used in our infrastructure (installations and buildings). To protect the safety of our employees and the surroundings, Alliander will seek to make the infrastructure asbestos-safe in the coming years. In 2012, we initiated a renewed approach to asbestos in the buildings we own. A detailed inventory was made and asbestos will be removed wherever necessary.

Installation of energy meters
The installation of energy meters is precision work whereby quality and safety are paramount. In 2012, 99% of our meters were installed in accordance with our quality requirements. Our objective was 100%. Early in 2012, routine quality controls revealed that several gas meters in Texel, Nijmegen and Apeldoorn, among other locations, had not been properly secured. As a precaution, Liander decided to temporarily suspend the contractors' activities and immediately fix the identified problems. In an effort to improve the process, the inspection frequency was stepped up in 2012 and contractors are now also more intensively involved in the development and implementation of the safety policy.

Sustainability
More and more customers are keen to save energy, produce their own energy and use electric vehicles. As part of its commitment to facilitating the energy transition, Alliander is helping businesses and consumers meet their (sustainable) energy needs.

Smart meter
In 2012, the network operators began offering the smart meter on a small scale. The handy applications on this digital energy meter allow customers to follow their real-time energy consumption and gain insight into potential energy-saving opportunities. In 2012, 212,000 meters were placed at Liander customers and 13,000 meters at Endinet customers. This mainly involved new-build projects and the replacement of old meters. Liander and Endinet are expected to start the large-scale roll-out of the smart meter in 2014. Customers are under no obligation to have a smart meter installed.

Since the end of September 2011, Vereniging Eigen Huis and Liander have been studying reactions to the smart meter with the assistance of 45 homeowners. The participants in the pilot indicated in 2012 that they were positive about the smart meter. Suggested improvements concerned feedback on their own consumption and the technical reliability of the meter. Another finding was that the participants had started to use energy more consciously. This has led to quick energy-saving wins, but not yet to major structural changes in behaviour. The participants were less worried about privacy issues after taking part in the pilot. Liander will address the lessons learned in 2013.

Gas bill correction
Liander noticed in 2012 that about 7,000 customers with a small consumer connection were paying too much or too little for their gas connection. Upon the invitation of the TV consumer programme TROS Radar, Liander explained the problem and promised to be lenient towards customers who had received a letter and did not need a large gas connection.

Decision of the Netherlands Competition Authority (NMa)
The regulator NMa has imposed a fine of € 3.3 million on Liander for violating the data confidentiality rules. During the split-up of the integrated Nuon Group into a network operator and an energy supplier, a number of Nuon employees unknowingly and unintentionally gained access to individual data of Liander customers. The (hypothetical) possibility of accessing Liander's client data was blocked immediately after it was discovered in February 2011. The NMa investigation found no indications that the customer data had been misused. Liander has appealed against the size of the fine; a decision is expected in 2013.

In 2012, Liander earned the ‘Privacy audit proof’ quality label for the processing of privacy-sensitive customer data from the smart meter. The quality label proves that Liander treats the personal details it receives from customers with due confidentiality.

Energy saving

More customers are interested in saving energy. Network operators Liander and Endinet are keen to help. Thanks to our initiatives, 41% of our consumers had full insight into their potential energy-saving opportunities at the end of 2012. We thus failed to achieve our target of 49%. It was found, after two years of monitoring, that this target was hard to influence as it was based on customers’ perceptions of their savings potential. For the coming years we have decided to adopt a more numerical approach to the savings potential. We will provide consumers with a comparative indication of their energy behaviour and encourage them to make further energy savings by means of energy-saving promotions and/or more detailed insight via the smart meter. During the year, we joined several initiatives, including the following:

- Together with Klimaatverbond Nederland, Liander launched the ‘energy warriors’ initiative in Arnhem in June. We placed a smart meter in the homes of the participants in the pilot. They now receive real-time information on their energy consumption on their smartphone or tablet. That way, they can immediately see their potential energy savings. The pilot will last one year.
- In 2012, Liander continued its participation in Amsterdam Smart City, an initiative to turn Amsterdam into Europe’s most sustainable city. Our contribution in 2012 included testing the experiences with various combinations of smart meters and energy management systems.
- To make children aware of energy and how they use it, Liander organised the ‘smart schools contest’ in 2012. Eleven primary schools in Almere took part in the energy contest. The children attended special classes and carried out various assignments to help their school save energy.
- As in 2011, Liander took part in “Block by Block” projects in 2012. We work closely with municipalities and project developers to make thousands of homes in Haarlem and Apeldoorn more energy-efficient thanks to insulation, sustainable energy self-generation and other energy-saving initiatives.

Electric transport

There was growing attention for electric transport and the need for charging infrastructures in 2012. Since the creation of Stichting e-laad.nl in 2009, we have worked together with other network managers to set up 2,000 public charging points in 272 municipalities in the Netherlands. In 2012 about 350 charging points were realised in our regions. Stichting e-laad.nl has thus laid the foundations for the public infrastructure in the Netherlands. In 2012, it was decided to continue managing and maintaining the existing charging infrastructure, whilst repositioning e-laad.nl as a knowledge and expertise centre for charging and charging behaviour. Applications for charging points that were submitted before October 2012 will be granted. To raise finance for future investments in the public infrastructure, Stichting e-laad.nl is working with the Formule E-team (a task force of the Ministry of Economic Affairs) to look for financers.

Case: Texel

The municipality of Texel is aiming to be entirely renewable energy self-sufficient in 2020. Liander, together with other parties, is assisting this process. In 2011, we offered the first smart meters to the island’s inhabitants. Prior to this, people living on Texel were unfamiliar with the smart meter and with Liander. They were also concerned about the privacy of their details. In 2012, Liander improved its communication efforts by setting up neighbourhood information centres. Customers were able to ask questions in person about energy feed-in, privacy, the Energy Stick and the website texelheeftinzicht.nl.

In 2012, Stichting e-laad.nl also helped to advance efforts to create a cross-border charging and payment system for electric car drivers. Together with organisations from seven countries, the foundation worked on the creation of the first open European Clearing House for electric vehicles. This international system enables drivers to use, and pay for, charging points in other countries. The arrangements are set out in the 'Treaty of Vaals' which was signed by organisations from the Netherlands, Germany, Belgium, Luxembourg, Ireland, Portugal and Austria.

Decentralised energy generation

In 2012, the number of customers that feed locally-generated energy into the network effectively doubled. Solar panel energy is particularly popular. We support personal and business customers with their self-generation initiatives. Some examples from 2012 are:

- Liander launched mijnhuismijnenergie.nl, a platform for introducing homeowners to energy self-generation. The site contains a tool for calculating the potential savings from solar panels.
- In Amsterdam and Nijmegen, Liander is carrying out pilots with solar panels on a shared roof of an apartment complex and at a municipal institution. These pilots are still an experiment, as the law does not yet provide for a method of mutually settling jointly generated energy. At present, households are only permitted to use free solar power from a shared roof if a physical cable connects the roof to the meter cabinet in the home.
- In the Wieringermeer, Liander connected the largest wind turbine in the Netherlands to the energy network. This turbine yields seven times as much energy as a traditional wind turbine and is designed to power 13,000 households in Medemblik.

More local initiatives involving Liander and Endinet can be found on the website (jaarverslag.alliander.com/2012).

Network quality and capacity

We do our best to avoid supply interruptions and to resolve any failure as quickly as possible. Interruptions in the electricity and gas supply cause our customers great inconvenience, while also costing society a lot of money. Moreover, gas failure can put the safety of residents, employees and emergency workers at risk.

Electricity

The electricity networks of Liander and Endinet are highly reliable. Nevertheless, the number of minutes that customers had no electricity due to failure increased. The annual outage duration for Liander customers rose from 20.0 minutes to 24.5 minutes. The average outage duration per fault increased to 72 minutes (2011: 66 minutes). The outage duration per fault at network operator Endinet decreased from 35.2 minutes to 8.6 minutes. Because the network is relatively small, the outage duration at Endinet can be largely influenced by individual interruptions. No major interruptions occurred in 2012. The combined average outage duration in the service area of Liander and Endinet was 23.9 minutes. Meanwhile, thanks to technological renewal, among other things, the number of times that customers were affected within the same postcode area fell sharply. In 2012, 10 postcode areas were hit by more than five interruptions.

To increase the reliability of the electricity supply, failure detectors were placed in the network, attention was devoted to excavation damage prevention, and weak connections in the network were replaced. In addition, projects were started to prevent any recurrence of interruptions at our customers.

Number of connections with feed-in installations [1]

customer segment	category	2012	2011
Large consumer connections	Biogas	92	90
	Hydropower	4	4
	Wind	761	751
	Solar	194	133
Subtotal		**1,051**	**978**
Small consumer connections	Biogas	162	148
	Hydropower	1	1
	Wind	11	6
	Solar	20,286	9,742
Subtotal		**20,460**	**9,897**
Total		**21,511**	**10,875**

1 Concerns number of connections with Liander feed-in installations (excluding combined heat and power installations).

Excavation damage prevention

Excavation damage is a major source of interruptions in the gas and electricity network. Every year, excavation incidents cause over 10,000 interruptions and 10 gas accidents. The annual damage to energy networks amounts to about € 45 million nationwide. In 2012, Liander intensified its efforts to prevent excavation damage by gaining early insight into planned excavation locations. Extra investments were made in a team that carries out advance assessments of all excavation work in our service area. This information is increasingly enabling Liander to approach excavation contractors in order to make safety arrangements before the work starts. In addition, Liander is also conducting a constructive dialogue with contractors to prevent excavation damage.

In May 2012, Netbeheer Nederland and Bouwend Nederland launched the national 'License to dig' campaign. The campaign was supported by a large number of excavation contractors, construction companies and network operators, including Liander and Endinet. Various roadshows were held for excavation contractors, their customers and employees to highlight the importance of careful excavation as well as the activities we undertake to prevent damage. Our guests also presented their own damage prevention initiatives and the problems they encounter in practice. We entered into a dialogue with them about our cooperation, the best ways to deal with difficulties in locating cables, the quality of work and, above all, the need for careful digging. In 2012, the regulator imposed two sanctions on Liander for failing to report excavation work involving polluted soil in time.

Replacing connections

In 2012, we carried out a large-scale replacement of weak connections between cable ends in our electricity network. These connections are a well-known cause of interruptions and were therefore replaced at vulnerable locations in the network.

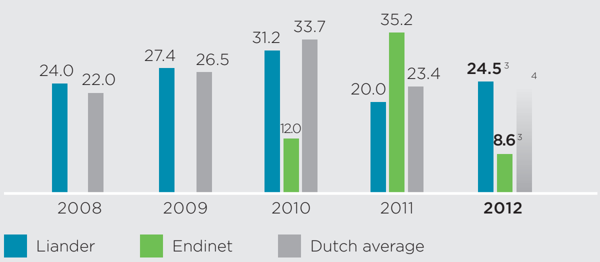
Gas

The gas networks of Liander and Endinet have a high reliability of supply. In 2012, Liander customers were without gas for an average of 56 seconds (2011:35 seconds). The average annual gas outage duration for Endinet customers decreased to 58 seconds (2011: 67 seconds). In 2012, Liander started a programme to further improve the safety, quality and capacity of our network. This includes the replacement of brittle gas pipes.

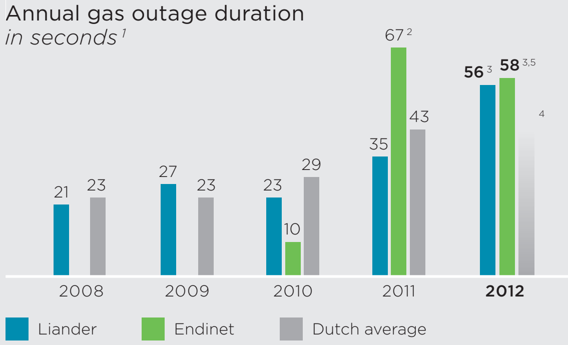
Replacement of brittle gas pipes

In 2012, Liander and Endinet replaced grey cast-iron pipes at many locations in the network. In total, 223 kilometres of this type of gas pipe was replaced. In some cases, the cast iron has become brittle after many years of use. A plan has been made with the regulator SSM (State Supervision of Mines) for the step-by-step replacement of these gas pipes. This reduces the risk of interruptions in the gas distribution network and improves the quality of the network. Wherever possible, the replacement work is planned to coincide with underground activities of water companies, municipalities or other parties. In this way, we can jointly limit the inconvenience caused. At locations with difficult access (e.g. under trees), we will renovate the existing pipelines. An SSM survey shows that the network operators are making good progress with the replacement of grey cast iron and asbestos cement pipes.

Annual electricity outage duration
in minutes [1]



Annual gas outage duration
in seconds [1]



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 57 seconds of the gas outage duration for Endinet in 2011 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.
3 The outage duration in 2012 for Liander and Endinet concerns provisional information. At the time of preparing this report, this information had not yet been conclusively established by the national consultative committee of network operators. The definitive information will be posted on alliander.com as soon as it is available.
4 The average Dutch outage duration, as determined by the national consultative committee of network operators, was not yet available at the time of preparing this report.
5 45 seconds of the gas outage duration for Endinet in 2012 was caused by a fire in a garage under a large apartment complex in Veldhoven on 27 December 2012. Without this interruption, Endinet's outage duration for 2012 would have been 15 seconds.

Replacement of brittle gas pipes

	Unit	2012	2011
Brittle gas pipe replacement [1]	kilometre	223	159

1 The definition of brittle gas pipes, as used by SSM, comprises pipes made of grey cast iron and asbestos cement. The total length of 'brittle pipes' in the Alliander service area at the end of 2012 was 2,700km.

Data quality

We record information about our infrastructure (e.g. type of material, dimensions and location) in the Operating Assets Register. The quality of these data is crucial to carry out our tasks. In consultation with our regulators NMa/Office of Energy Regulation and SSM, Liander validated and supplemented 97% of the data in the Operating Assets Register. In 2013, Liander will carry out field research at several locations to obtain more complete data, which will then be added to the information systems in a step-by-step process.

Capacity planning

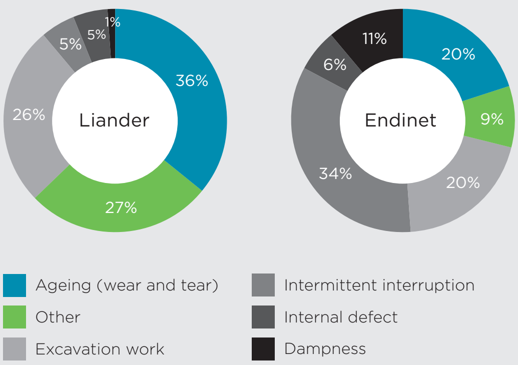
Our electricity and gas network must meet the energy needs of our customers, both today and tomorrow. We continuously assess the required and available capacity of the networks. This helps us to look further into the future and anticipate developments more rapidly, which is vital for effective capacity planning. Every two years we report on our actions to the regulators in Quality and Capacity Documents (QCDs). We also use network structure plans to describe how the network structure might develop in the coming 20 years in diverse scenarios.

Case: Gas leak in Hilversum

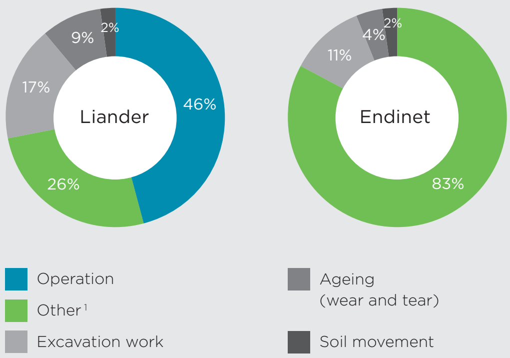
In July, a gas pipe near the Diependaalselaan gas station snapped loose, causing a big bang and a gas leak. Within half an hour Liander was able to stem the gas flow and make the situation safe. Liander immediately initiated an internal inquiry into the cause of the gas leak. In addition, Liander commissioned an independent institute, KIWA Gas Technology, to investigate the cause of the gas leak. This revealed that the gas pipe had come loose at a connection that had previously been exposed during excavation. It was found that this connection was not suitable for pipes under high pressure. Moreover, mistakes had been made decades earlier when the part was installed by one of our predecessors. Liander adjusted several procedures to prevent any recurrence of such situations in the future.

To maintain the quality of the energy networks, we continuously determine which projects need to be performed from a risk perspective. The progress of the 25 most important investment projects is reported on a monthly basis. A number of planned projects suffered delays in 2012. This was partly due to our own operational choices and partly due to the choices of our partners, such as customers and municipalities. Alliander closely monitors all projects and strives for timely completion, both for the benefit of our customers and to safeguard the reliability and quality of the networks. The delays had no negative impact on safety and activities were replanned in mutual consultation with stakeholders.

Causes of electricity outage duration



Causes of gas outage duration



1 77% of the gas outage duration for Endinet was caused by a fire in a garage under a large apartment complex in Veldhoven on 27 December 2012.

No significant capacity bottlenecks occurred in 2012, and none are foreseen in the coming period. To guarantee sufficient capacity in the future, we are investing in the expansion of our networks. We are doing this in anticipation of rising electricity consumption and a sharp increase in decentralised generation in the years ahead. So far, most of the growth in supply comes from the development of wind farms and medium-sized CHP installations (collective systems for sustainable heating and the greenhouse industry). Other developments concern small-scale energy generation such as micro-CHPs, solitary wind turbines and solar panels. Liander is responding to this in various ways, for instance by developing intelligent medium-voltage networks, new substations and additional power transformers.

Innovation

Innovation improves the safety of our energy networks, the reliability of our services and the efficiency of our work. In 2012, we continued to explore the opportunities offered by new technologies, appliances and methods, often in partnership with other network operators, universities and research institutes. The innovations introduced in 2012 included:

- LiveLab, a laboratory where we test, improve and learn. Prior to implementation, we try out new concepts 'live' in a controlled test environment to discover their effects on our medium-voltage networks.
- the compax sleeve for making connections between electricity cables. Apart from good damp resistance and insulation properties, the 'plug and play' installation allows rapid installation and greatly reduces the risk of interruptions.
- the ground radar, for determining the exact location of cables and pipes. Data are transmitted to the Geographic Information System, which leads to increasingly precise information about the underground infrastructure and further reduces the risk of excavation damage.

Intelligent networks

An intelligent network enables us to facilitate future energy developments more effectively and cheaply. In the intelligent network, the structure is adjusted, sub-stations and medium-voltage units are equipped with intelligent ICT and sensor technology, and the capacity of the network is increased from 10 kV to 20 kV. The strength of Alliander's intelligent network concept is that an estimated 90% of the network components (cables and units) will be reused.

The intelligent network

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).

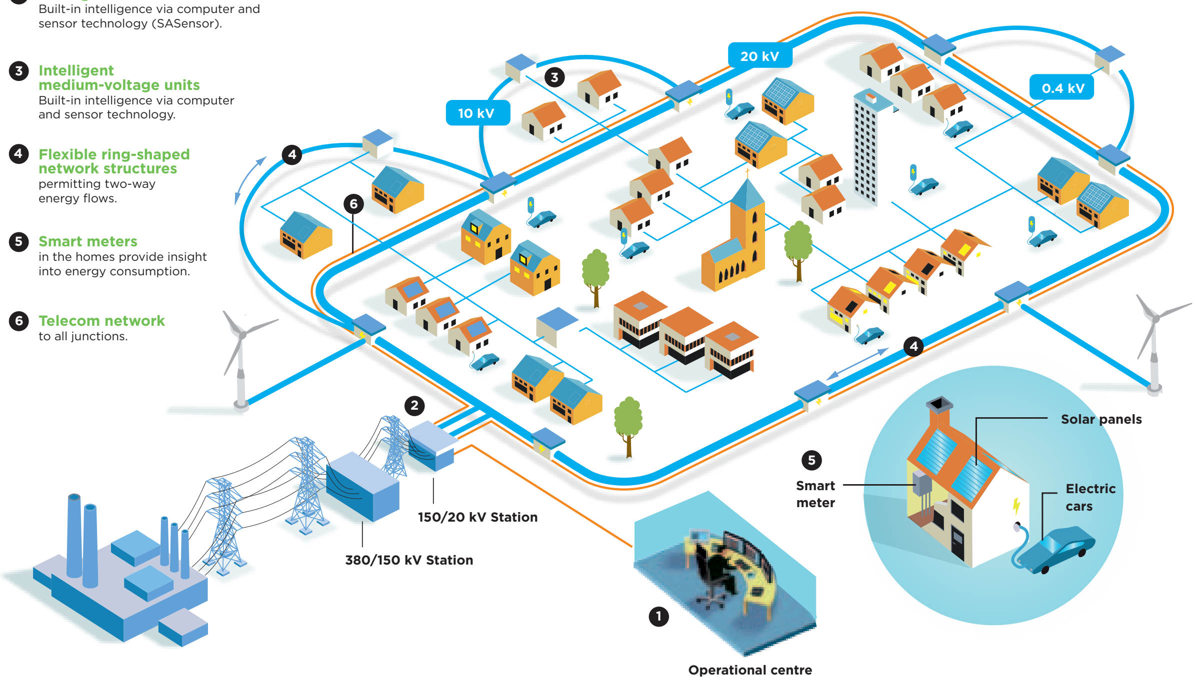
3 **Intelligent medium-voltage units** Built-in intelligence via computer and sensor technology.

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 intelligent 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.



In 2012, Liander realised the first intelligent electricity network in Amsterdam Nieuw-West. You can obtain more information about this on the website (jaarverslag.alliander.com/2012).

Telecom
The digitisation of our networks makes new demands on the telecom network. We need more bandwidth and greater availability, reliability and flexibility than the existing telecom network can offer. In 2012, Alliander decided to expand the fibreglass network, involving a planned investment averaging € 10 to 15 million per year over the coming decades.

Given the growing importance of telecom for all network operators, Alliander took the initiative to create the Telecom working group, which has been placed within Netbeheer Nederland. Network operators have agreed to work together more intensively and fundamentally in order to generate synergy gains. Knowledge building and sharing alongside the creation of a knowledge network can support industry-wide choices on strategic and other issues.

Security
Alliander operates energy networks and processes privacy-sensitive and confidential data. For this reason, the protection of assets and data is a primary priority for Alliander. In view of the ongoing digitisation of the infrastructure, Alliander took action in 2012 to protect its assets and data.

As the world is becoming steadily more interconnected and mutually dependent, cooperation and specialisation are increasingly crucial to achieve adequate security. Alliander fully understands this and was therefore delighted to play a role as one of the co-founders of the European Network for Cyber Security in 2012. The ENCS will assist the efforts of Alliander and other partners within the energy sector to guarantee the security of assets and data. In addition, Alliander provided input at national and European level for the formulation of security and privacy standards for intelligent networks and smart meters.

Outlook for 2013
We continuously strive to improve our services in an ongoing dialogue with customers. We design and organise our processes to maximise the quality and efficiency of those services. Alliander focuses on achieving minimal interruptions as well as future-proof sustainable energy networks.

Increased use of smart meters
In 2013, network operators will intensify the roll-out of smart gas and electricity meters. We also expect an acceleration of the use of solar panels as they continue to drop in price, leading to a corresponding rise in applications for smart meters. According to the current outlook, Alliander's investments in smart meters will run to € 60 to € 100 million per year between 2013 and 2020.

Adjustment of tariffs
Liander and Endinet will increase their tariffs in 2013. The increase is necessary to keep the energy infrastructure reliable, safe and affordable in the long term for all customers. In addition, facilitating the energy transition calls for major investments in the energy network. The tariff increase introduced by Liander and Endinet falls within the permitted increase as approved by the Netherlands Competition Authority.

Supplier model
The supplier model will be initiated in 2013. This means that consumers will have a single point of contact for all their energy needs and queries, namely the energy supplier. The energy supplier will pass the regional transport costs on to the consumer. The energy supplier will also engage a measurement firm to determine how much energy customers have used.

Investments in the network
It is difficult to predict the exact shape and pace of the energy transition. This poses a dilemma for network operators. The replacement or construction of a network requires very careful consideration and planning. On average, the gross investments in the networks will run to € 500 million per year, including the investments in smart meters among other things. In the coming years we will make considerable investments in such aspects as the placement of sensors in the network and the further digitisation of our operations. In 2013, Alliander will remain active, both internally and externally, in the field of security and privacy.

society

Corporate social responsibility forms an integral part of our strategy and all our activities. This makes us a natural partner for provincial and municipal authorities when it comes to developing and implementing energy policy. In addition, we pursue corporate social responsibility in our own operations and in our community efforts for the benefit of society.

Results

805	CO_2 emissions from own operations (ktonnes)
75	Employees at a disadvantage on the labour market
42%	Socially Responsible Procurement

In 2012, Alliander invested in CO_2 reduction, sustainable procurement criteria and expanding our Step2Work programme which aims to give more target groups a chance in the labour market. Our emphasis is on three public ambitions: facilitating the energy transition (as described in the Customers section), guaranteeing socially responsible operations and supporting a limited number of community initiatives as a socially committed network company.

Socially responsible operations

CO_2 reduction

Due to its activities in the energy chain, Alliander has a significant CO_2 footprint. Alliander is among the top 30 CO_2 emitters in the Netherlands. Our aim is to substantially reduce our footprint in the coming years.

Our CO_2 reduction efforts are based on the three-step 'trias energetica' approach. The first step is to save energy, the second is to use renewable energy, and the third is to use fossil fuels as efficiently and effectively as possible. Alliander is keen to ensure that its procurement of renewably generated electricity serves to spur the development of extra generation capacity. Alliander therefore exercises restraint in its use of international guarantees of origin and other carbon offset schemes.

Network operators cannot directly influence their CO_2 footprint in all areas. This is because about 90% of our energy consumption is the result of losses in the electricity and gas grids. About 80% relates to technical grids losses and some 20% is due to administrative grid losses. The greater the demand for energy in society, the greater the volume of energy transmission, and the greater

CO_2 performance ladder

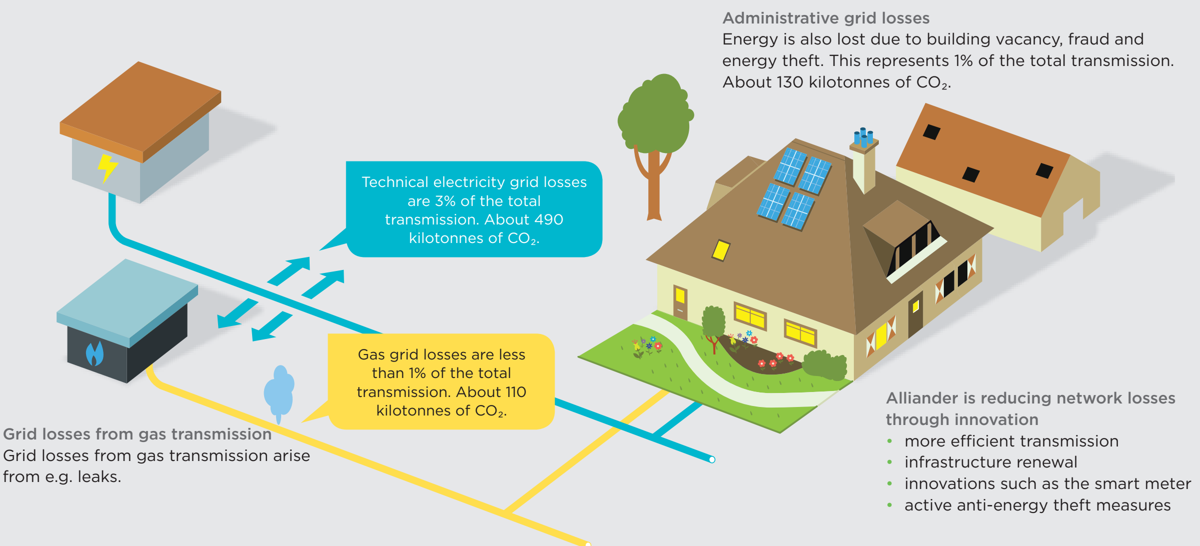
In 2012, our CO_2 approach and method was certified on the basis of the CO_2 performance ladder (level 3 to 5). The ladder shows how serious and ambitious companies are about CO_2 reduction. CO_2 certification is increasingly required in tendering procedures. This is an important development that Alliander is watching closely, as both a contractor and a contracting party.

the grid losses leading to CO_2 emissions. Controlling and reducing grid losses is therefore a long-term challenge. Measures that can be rapidly implemented only yield limited benefits, while the most effective measures that produce long-term benefits are extremely costly. Nevertheless, we continue to look for new opportunities to reduce our CO_2 footprint. In 2012 our CO_2 reduction efforts yielded the following results:

Direct and indirect emissions from own operations	Limited ability to control Leakage losses from natural gas grid • Permanent programme for detecting gas leaks; • Grey cast iron replacement programme as agreed with SSM. Grid losses from electricity transmission/distribution • Wherever possible we replace 10kV with 20kV cables, leading to substantially lower grid losses; • Completion of a sustainable substation in Lochem saves about 10% of this station's grid losses. Reasonable ability to control Administrative grid losses (due to property vacancies and fraud) • Realise more effective solutions for property vacancies and fraud, and seek contact with customers (optionally in cooperation with the police) via the newly set-up Energy Balance Department. Good ability to control Energy consumption of buildings • Relocation to new Endinet office; • Changes to data centre cooling system; • Opening of sustainable warehouse in Nijmegen with e.g. a heat pump and solar panels. Lease and company cars • Participation in Green Driver programme, aimed at more fuel-efficient driving behaviour; • The total number of electric and semi-electric cars increased.
Other emissions	Reasonable ability to control Waste • Every year our chain partners provide insight into the CO_2 emissions that were avoided based on recycling and processing arrangements. Good ability to control Commuter, business, air travel • Larger number of train subscriptions; • Lower car kilometres claimed; • More air kilometres (increase of 25% compared to 2011).

What are grid losses?

About 90% of Alliander's CO_2 footprint is the result of technical and administrative grid losses. But what exactly do these terms mean? And what is Alliander doing to reduce these losses?



CO_2 footprint [1]

In tonnes of CO_2	2012		2011	
	Emissions	Offset	Emissions	Offset
Scope 1 (direct emissions from in-house activities)				
Gas consumption in buildings	2,915	-	2,681	-
Gas grid leakage loss (total) [2]	112,361	-	112,871	-
SF_6 emissions from electricity grid [3]	1,171	-	1,793	-
Lease and company cars [4]	17,637	-	17,059	-
Total scope 1	**134,084**	**-**	**134,404**	**-**
Scope 2 (indirect emissions from in-house activities)				
Electricity consumption buildings [5, 6]	5,884	-	6,539	6,539
Electricity transmission/distribution grid losses [5]	619,963	-	649,602	-
Total scope 2	**625,847**	**-**	**656,141**	**6,539**
Scope 3 (chain emissions from product usage and direct and indirect emissions from outsourced activities)				
Electricity grid construction and replacement	37,080	-	37,949	-
Gas grid construction and replacement	493	-	416	-
Commuter, business, air travel	2,151	-	1,964	-
Waste [7]	4,892	-	5,131	-
Total scope 3	**44,616**	**-**	**45,460**	**-**
Total	**804,547**	**-**	**836,005**	**6,539**

1 Alliander calculates and reports the CO_2 emissions according to the Greenhouse Gas Protocol (GHG Protocol). The chain emissions released during raw materials extraction and electricity and gas transmission are also included in this calculation.
2 Methane emissions from gas pipe network.
3 SF_6 concerns leakages from high-voltage switching installations.
4 Emissions from lease and company cars are reported including fuel chain emissions resulting from raw materials extraction and transmission.
5 Emissions are based on the most recent Dutch production mix.
6 In 2011 'natuurstroom' (solar, wind and hydro power) was used to cover electricity consumption in office buildings used by Alliander (excluding rented premises).
7 Waste CO_2 concerns the balance of standard CO_2 emissions and savings according to the statement from waste processor SITA. SITA processes about 50% of Alliander's total waste (95% excluding metals).

Waste flows

In tonnes of waste	Category	2012	2011
Office waste	Paper and board	1,013	1,125
	Other	1,236	1,157
Subtotal		**2,249**	**2,282**
Industrial	Metals	7,351	8,250
	Timber	211	429
	Plastics	665	440
	Soil	2,873	921
	Other industrial waste	6,566	6,866
	Other hazardous waste	1,027	832
Subtotal		**18,693**	**17,738**
Total		**20,942**	**20,020**

Our CO_2 emissions target for 2012 was 820 kilotonnes. Actual emissions totalled 805 kilotonnes, so we comfortably met our target. The reduction was mainly attributable to lower grid losses. We are aiming to make our operations climate-neutral by 2020. This means that, on balance, Alliander will emit zero emissions in that year.

Our pursuit of this objective makes the further development and application of knowledge a matter of even greater urgency.

Alliander wants to offset its CO_2 footprint with more renewable energy generation in the Netherlands. This ambition demands time and investment. Alliander is exploring the opportunities for offsetting part of its grid losses with renewably produced energy in an effort to mitigate its CO_2 footprint. However, the (political) leeway for network operators in the area of renewable generation remains uncertain. A sector-wide review is currently being carried out to determine the position of all network operators regarding greening policies to reduce our grid losses as well as the political scope for investing in renewable generation. We will be able to report the outcomes in 2013. Apart from the available political latitude, time is another crucial factor. Together with partners in society, we are seeking to define a realistic time scale for making our operations climate-neutral. We will be able to report these outcomes in 2013 as well.

Waste reduction

Our energy infrastructure contains an extensive arsenal of raw materials. Alongside traditional materials such as copper, aluminium and PVC, we are also procuring more and more electronics as a result of the introduction of intelligent networks and smart meters. We are attempting to close our material cycles of office waste and industrial waste as effectively as possible through recycling. Arrangements have been made with our waste processors for the useful reuse of our waste. Reuse is sometimes difficult to achieve due to legal provisions governing network connections and the removal of old pipes, soil pollution and asbestos.

In 2012, Alliander made good waste processing arrangements with SITA, which processes 95% of our waste, excluding metals. One of our objectives for 2012 as set out in our Socially Responsible Procurement (SRP) arrangements with the waste processor was to recycle more than 80% of our waste. This target was achieved.

To build our knowledge about waste, we joined a national study into the circular economy in 2012. Circular economy refers to a model in which everyone has an economic interest in maximising the reclamation and high-quality recycling of their raw materials. This model will form the basis for arrangements with our processors and suppliers in the coming years.

Chain responsibility

We use raw materials, products and services from all over the world. This creates worldwide connections with our stakeholders and chain partners. By taking chain responsibility, Alliander can influence the social and ecological effects of the raw materials, products and services we use for our operations. Every year we purchase products and services valued at around € 900 million. Our procurement activities, tendering criteria and partnerships are always aimed at raising social themes and seeking improvements with our partners. In this connection, we take account of the potential effects or unintended consequences of activities and products, and attempt to avoid or minimise any negative impact elsewhere in the value chain. Key issues include labour conditions, reclamation of raw materials, recycling and CO_2 emissions. Our suppliers operate according to the 'Alliander Suppliers Code of Conduct'. This code requires that our suppliers (and their suppliers and manufacturers) act according to ethical and fair business principles. Contracts with international suppliers from countries such as China are audited in cooperation with a specialised audit firm. By working with local auditors, we try to guarantee adherence to our Code of Conduct and environmental laws. No sanctions were imposed in 2012.

Fair Meter

Smart meters play an important role in the energy transition and in facilitating energy savings at our customers. In the coming years, all network operators will install millions of new meters. In order to minimise the ecological footprint of the smart meter, Alliander launched the Fair Meter Initiative in cooperation with other network operators in 2012. The entire chain and life cycle of the meter are fair: from fair raw material extraction, production and full recycling to minimal energy consumption and privacy. Fair Meter is an official design criterion for the large-scale procurement of smart meters.

In addition, Alliander agrees on Socially Responsible Procurement (SRP) statements with suppliers. These statements set out the sustainable tendering requirements and additional arrangements for CO_2 reduction, for example, sustainable materials usage and labour participation. In line with our target, social responsibility arrangements were made for 42% of the contracts concluded with suppliers in 2012. These arrangements were laid down in SRP statements. Alliander is aiming to raise the percentage of SRP-based procurement contracts to 80% by 2016.

Cooperation with chain partners is essential to improve the impact of a value chain on communities and the environment. Co-creation with our partners is crucial to our success in this respect. Sometimes, an alternative approach to tendering can be an appealing, or even necessary, strategy to realise sustainable and innovative solutions. New alternatives can be found by focusing on practical outcomes instead of on rigid product or service specifications, and by challenging chain parties to come up with their own solutions. In 2011 and 2012, Alliander used this alternative approach for two tendering procedures, including one for our own building in Duiven. Despite the proven success of this approach, we also notice that the application of European tendering rules in the Netherlands is leading to a tendency to emphasise detailed specifications. Together with civil society partners such as "Groene Zaak" and "MVO Nederland", Alliander will request that the Dutch government devote attention to this tension between compliance and pragmatism. The most important results of our procurement policy in 2012 were:

- The signing of the "Code for Responsible Market Conduct" in April 2012 for cleaning contract tenders. Besides the normal contract award criteria, tenders are also assessed on the quality of and working conditions for the cleaning staff.
- Knowledge exchange with one of our partners about the quality of reporting and cooperation in connection with the electrification of both our fleets.
- Arrangements with parties in the asbestos removal chain about e.g. the minimisation of CO_2 emissions.
- The inclusion of the CO_2 performance ladder in work that is outsourced.
- Adoption of the "Fair Meter" criterion for the Smart Meter tendering procedure in 2014/2015.

> "It is daring of Alliander, as an operator of the central energy network, to embrace local energy sustainability so wholeheartedly together with partners in society. But CSR is developing fast, and Alliander must stay on the ball to retain its leadership position."
>
> Willem Lageweg, MVO Nederland

- The contracting of the construction of our sustainable office expansion in Duiven.
- Arrangements with contractors about their cooperation in Step2Work.

Socially Committed Network Company

We want to harness the knowledge within our organisation and the commitment of our employees to promote a better society. Alliander supports community initiatives that are aligned with our role as a network company in close cooperation with our civil society partners.

Civil society partners

By engaging in an active dialogue with civil society partners, we can have a significant impact in improving society and enabling the energy transition. In 2012, we deepened our partnerships with e.g. e-Decentraal, Urgenda and the MVO Nederland's Large Business Network. We contributed knowledge relating to such themes as electric driving, local energy companies and sustainable development. Alliander also renewed its partnerships with Natuurmonumenten, Milieu Centraal and the Foundation Rural Energy Services (FRES) in 2012. More information about our relationship with civil society organisations can be found on the website (jaarverslag.alliander.com/2012).

Labour participation

Organisations are undergoing rapid change and the economy is becoming increasingly knowledge-driven. Some struggle to keep up with the new demands. We want everybody to have a chance to participate, and have set out concrete plans for this purpose in our CAO (Collective Labour Agreement).

Our Step2Work programme offers a new opportunity for people at a disadvantage on the labour market. Participants are given a work and learning programme that is completely tailored to their personal needs. The scope of the programme was expanded in 2012. Alongside the initial target group ('young people up to age 30 at a disadvantage in the labour market'), Step2Work is now also accessible to individuals with a mental or physical handicap and to over 45s who have dropped out of the labour process. In 2012, 75 new Step2Workers set to work at Alliander. No fewer than 66 were offered, and accepted, a job. We thus realised our target. In 2012, participants in Step2Work received support from 60 Alliander employees who provided assistance as supervisors or workplace coaches. In addition, Alliander employees helped two youngsters with a disability to start their own business via the 'Bikkel Project' of the Bart de Graaf Foundation.

Voluntary work

Alliander also encouraged employees to get involved with each other and their communities outside their work. The Alliander Foundation helps employees to start up

"The movement towards a local energy supply exemplifies the drive towards sustainability that we see today; social challenges, such as our climate problem, call for local solutions where people and organisations learn to work together again in different and better ways. We are delighted with Alliander's substantive contributions to the publications 'Duurzaam Denken Doen' (2011) and 'Werken aan de WEconomy'(2012). These sustainability publications came about through networking, with lots of attention for the power of local solutions and co-creation as the key to successful, sustainable entrepreneurship."

Prof. Jan Jonker,
Professor in Sustainable Entrepreneurship

voluntary projects. In 2012, more than 600 colleagues gave their assistance to voluntary projects. In some cases, entire teams took the initiative to volunteer together for a day. A total of about € 190,000 was spent on 76 projects. The Alliander Foundation works intensively with Stichting Nederland Cares.

Sponsorship

Our sponsorship is based on a strong commitment to society. We aim to help realise good community initiatives by providing financial and other support. In 2012, Alliander spent over € 300,000 on sponsorship.

Transparency

Our operations are transparent and we report in great detail on our financial, ecological and social choices and results. Transparency, for us, includes showing the extent to which we succeed in embedding socially responsible entrepreneurship in our organisation. We use the MViO (CSRi) performance model, where 'i' stands for innovation, for this purpose. The model measures our performance on socially responsible and innovative entrepreneurship, the quality of our stakeholder dialogue, the quality of our ambitions and objectives, the embedment of CSR in our work processes and our innovation culture, the results achieved and our transparency. Annual MViO measurements provide us with vital input for determining our future development. The measurement for 2012 produced the same total score as the year before.
As expected, there was an improvement in the quality of our ambitions and achieved results. However, the measurement also showed that there is room for improvement in our contact with stakeholders and our responsiveness. One specific challenge involves identifying our stakeholders' needs and wishes with all projects and activities.

The 2012 annual report is our first report drawn up according to the GRI A+ requirements, which is the highest international transparency standard. This standard helps Alliander to be more transparent about our activities and our contribution to society.

Outlook for 2013

Alliander wants to make a contribution to socially responsible entrepreneurship.

Growth in organisational development

In addition, we are continuing to devote attention to the development of our knowledge and competences in order to further improve our performance for society. In 2013, we intend to put our stakeholder dialogue on a more structural and regular footing. We will also complete the self-assessment for the international ISO26000 standard, and strive to grow to level 4 on the CO_2 performance ladder. Finally, we will again report according to the GRI A+ level in order to continue providing transparency on our contribution to society.

Growing our results

In 2013, Alliander is presenting a detailed plan for reducing the footprint of our grid losses, both in terms of CO_2 and raw materials. We expect the grid losses to rise, but are convinced that we can expand our range of reduction measures. We want to increase our waste recycling percentage. In accordance with our long-term chain cooperation objectives, 45% of our contracts must meet our sustainability requirements, which will require significant adjustments to our procurement process. Finally, we have raised our labour participation objective to 80 participants in our Step2Work programme.

"Urgenda is an action-oriented organisation that is aimed at direct, sustainable progress. We see that all technical solutions for the sustainable growth and development of our society have been lying waiting on the shelf for ages. The crucial thing today is to apply these solutions, which often conflicts with existing positions and vested interests. So our partnership with Alliander is very telling. Alongside the existing reality of a central energy infrastructure, there is also a will to work on the new reality of local renewably generated energy. Looking to the future, we see lots of opportunities to strengthen our mutual efforts in electric driving and sustainable area development."

Marjan Minnesma, Director of Urgenda

employees

Together with more than 7,000 employees, we make it happen: a reliable and sustainable energy supply. We have a challenging role to play, with a crucial impact on the well-being of society. Alliander therefore makes every effort to develop and make optimal use of everyone's talent.

Results

2.0 Lost Time Injury Frequency (LTIF)
average number of accidents involving absence from work per 1 million hours worked

4.0% Employee absenteeism

8.3 Employee satisfaction survey score

21% Women in leadership positions

To carry out our work properly, both today and tomorrow, continuity and quality are essential when it comes to our employees. We need an ample supply of sufficiently qualified and motivated staff. For this reason, strategic personnel planning received extra attention in 2012. This revealed, among other things, that we need new talent to continue our work, both now and in the future. Our work is becoming increasingly complex and many employees are due to retire in the coming years. To recruit and retain sufficient qualified staff, Alliander is investing in modern employment practices, training and development. We do this in close cooperation with external partners and training institutes.

We put a lot of time and effort into explaining what working at Alliander involves, and attach great value to building careers together with our employees. This is why we are so proud of our fourth place ranking in the Best Employers Survey 2012 and winning the 2012 award for Best Technical Traineeship of the Netherlands.

Employees by type of employment contract [1]

	2012	2011
Numbers of own employees and temporary hires (in numbers)		
Employees with a permanent contract	5,392	5,250
Employees with a fixed-term contract	624	516
Total number of own employees (in numbers)	**6,016**	**5,766**
Temporary hires	1,124	1,186
Total number of own employees and temporary hires (in numbers)	**7,140**	**6,952**
Percentage of full-time/part-time employees		
Employees with a full-time employment contract or temporary contract	84%	84%
Employees with a part-time employment contract or temporary contract	16%	16%
Number of own employees and temporary hires (FTEs)		
Total number of own employees	5,807	5,543
Temporary hires	1,013	1,104
Total number of own employees and temporary hires (FTEs)	**6,820**	**6,647**

1 Including Alliander AG and Stam employees.

Modern employment practices

With its flexibility in terms of employment, working practices and contracts, Alliander supports employees in their work and career. We consider it vital to create a working environment in which employees can be themselves, work together in optimal conditions and share their knowledge, expertise and creativity. To this end, we are redesigning the physical and digital workplace, facilitating 'anytime, anywhere' working, and promoting new mobility options.

Modern employment practices are also integrated into our terms of employment, including our Collective Labour Agreement (CLA) and the personal employee benefits budget, where every employee is free to compile their own benefits package to suit their personal circumstances and stage of life.

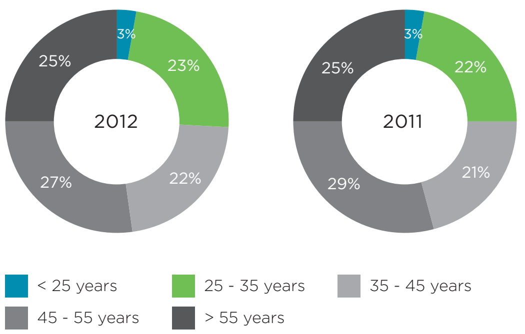
Cooperation in the sector

Drawing on its 'investing in people' philosophy, Alliander is seeking to set up innovative labour relations together with other network operators and the trade unions in order to achieve a joint approach to prominent strategic issues for the future. Together with TenneT, Enexis, Joulz, Stedin, the works councils and the trade organisations, Alliander is working to realise five projects: CAO 2.0, CAO innovation, labour market approach, training and development, and coaching employees from work to work.

Personnel planning

Around 2016 we foresee a shortage of qualified staff in the labour market. In 2012, a strategic personnel plan was drawn up for each business unit with a view to recruiting the people we require and effectively using their knowledge and skills. These plans, which focus on both the long and the short term, show that Alliander will need more staff with different skills and competences in the future. One example is knowledge of ICT, which is becoming increasingly important for the management and maintenance of our energy networks.

Age distribution own employees[1]



1 Including employees of Alliander and Stam.

In 2012, Alliander had over 800 vacancies and we managed to fill 523 with new employees. During the year, 19.6% of our employees moved positions. In addition, 1,124 external contract staff worked for Alliander at the end of 2012.

The objective to appoint 60 new technicians in 2012 was more than achieved with the recruitment of 70 new technicians. Thanks to our attention to the career and development of existing employees, almost 20% of the staff moved positions in 2012. At Endinet, 28 employees left because their work related to public lighting was transferred to Ziut. These Endinet employees now work for Ziut.

Incoming and outgoing own employees[1]

	2012	2011
Total incoming staff (in numbers)		
Incoming male staff	412	427
Incoming female staff	111	122
Total incoming staff	**523**	**549**
Total outgoing staff (in numbers)		
Outgoing male staff	221	246
Outgoing female staff	52	65
Total outgoing staff	**273**	**311**
Incoming staff due to consolidation of new companies	-	-
Outgoing staff due to deconsolidation of companies	28	-
Percentage of outgoing staff versus total number of own employees	4.5%	5.4%
Average duration of employment (in years)	15	15

1 Including employees of Alliander and Stam.

Our trainees prove their talents both inside and outside the organisation. In 2012, they won the NRG Battle World edition during the World Gas Conference in Kuala Lumpur. At this event, international top talent from various large companies worked on a challenging and topical case for energy companies. Alliander trainees won the battle with a creative pitch for promoting biogas projects.

Recruitment

With examples of innovative projects and solutions, we show how people who work for Alliander can make a valuable contribution to a sustainable society.

Interaction and social media are important ways to get into contact with technical talent. We see a shift towards more network recruiting. Therefore, alongside our recruitment efforts for specific vacancies, we are building a network of professionals who would like to work at Alliander in the future. This marks a change in our recruitment strategy. By establishing good relationships with candidates, we can show what their career opportunities are at Alliander. In 2012, Alliander recruited 523 new employees. In 2011, we started with a pre-selection process aimed at making young people enthusiastic for a technical career. This involves offering teaching packs, guest lectures and teaching accommodation for pupils and teachers within the Alliander buildings. In this way, we engage young people in our work and the challenges we face at an earlier stage of their development. In 2012, 88 students set to work at Alliander. We are also seeking to attract people from outside the sector. Experienced people can prove of great use to our company and we are prepared to provide any additional training or retraining they need. In 2012, we welcomed the first new employees over age 55 into our ranks.

Traineeships

Alliander has developed four traineeships for recent graduates. In 2012, there were 51 trainees working for Alliander. They receive training in specialised or general management, technology, financial or IT skills. During the traineeship, they acquire in-depth knowledge of our organisation and gain practical experience in several departments. That way, they can discover where their interests and ambitions lie. Specific training courses are offered and their personal development naturally also receives ample attention. We offer young talent a chance to make rapid progress in our organisation.

Alliander's technical trainee programme was rewarded with the 'Best traineeship 2012' award by an expert jury from labour market communications firm Nobiles. According to the jury, Alliander distinguishes itself from other companies through its central focus on developing talent and by carrying out relevant projects.

Segmentation by number of own employees[1]

	2012	2011
Province of residence of employees		
Gelderland	50%	50%
Noord-Holland	30%	31%
Friesland	5%	5%
Zuid-Holland	5%	4%
Noord-Brabant	5%	4%
Flevoland	2%	2%
Other provinces in the Netherlands	1%	2%
Germany	2%	2%

1 Including employees of Alliander AG and Stam.

Diversity

Alliander is a 'male' company: only 19% of its employees are women. We are striving for a more diverse and equal workforce, in which female and male competences are both represented. This will lead to better decision-making and cooperation. In 2012, Alliander conducted the 'We want more' campaign to focus attention on diversity. We also commissioned an independent study into equal rights of men and women at Alliander. This shows that 24% of the women do not believe they have the same opportunities as men within the company. No less than 23% of women in leadership positions indicate that it is either impossible or undesirable to show female characteristics.

Alliander is keen to promote more equal opportunities and an equal distribution between men and women within the organisation. We have set ourselves the goal of having a minimum of 21% women in leadership positions in 2015. With each external vacancy for a leadership position, we nominate at least one female candidate. And the minimum female quota for the management traineeship is 30%. In addition, we devote attention to such competences as sensitivity and empathy in our leadership profile, mentoring and coaching and we regularly discuss diversity with employees.

Employee diversity [1]

	2012	2011
Diversity own employees by gender		
Male	81%	81%
Female	19%	19%
Female/male average salary ratio	93%	90%
Diversity of management by gender [2, 3]		
Male share in leadership positions	79%	80%
Female share in leadership positions	21%	20%

1 Including employees of Alliander AG and Stam.
2 Concerns all employees in leadership positions.
3 In 2012, 8% (2011: 8%) of the total number of employees held a leadership position.

Safety

Working with gas and electricity calls for great expertise and the utmost care. So it is important to ensure all our employees work safely. Our training courses and orientation processes for new employees therefore devote extra attention to safety. We have also created a digital platform for employees. This platform provides an opportunity to share knowledge and experiences in the field of safety with colleagues. Photo and video reports highlight a range of safety themes, including how to deal with asbestos. The platform enables employees to learn from each other's experiences in order to avoid incidents in the future.

A task force has been set up for Liander's operational departments in order to raise our safety performance and awareness to a higher level. One important step concerns the appointment of safety coaches who work on location to help the organisation improve its safety performance. Activities involving polluted soil are always carried out in the presence of experts. The number of recorded accidents leading to absenteeism decreased in 2012, but it is not yet clear whether this is attributable to our efforts in the field of employee safety.

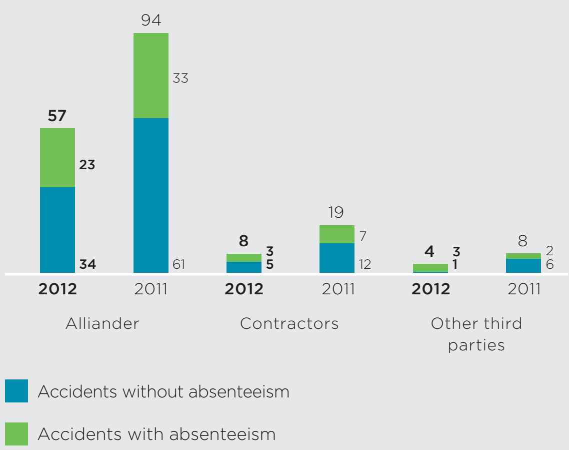
We measure our safety performance according to Lost Time Injury Frequency (LTIF). This expresses employee safety in terms of the number of accidents with absenteeism in relation to the number of hours worked. In 2012, the LTIF declined to 2.0 (2011: 3.2). A total of 57 occupational accidents involving our own employees were reported, down from 94 in 2011. Of the accidents in 2012, 23 led to absenteeism compared to 33 in 2011.

Vitality

With a healthy organisation, we can overcome the challenges confronting the energy industry. That's why Alliander invests in the health and fitness of employees. In 2012, Alliander formulated new policy with a view to helping long-term absentees return to work as quickly as possible. Apart from personal contact with managers, Alliander also enlists rapid assistance and counselling services from, for example, the Health & Safety Department and the reintegration centre. In 2012, the progressive absenteeism rate was 4.0% (2011: 4.1%).

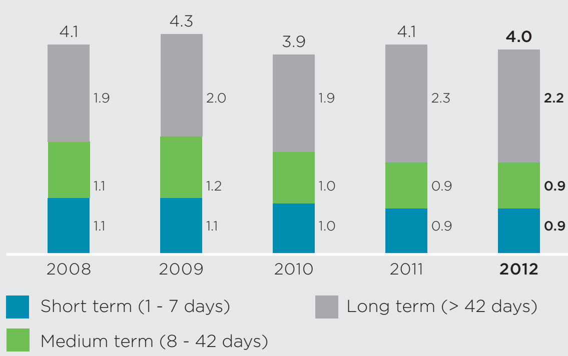
As part of the High-Energy lifestyle and exercise programme for employees, 1,123 staff members received personal coaching to help them engage in healthy exercise and adopt an active life style. This programme offers fitness tests, health information and training sessions

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'. 'Contractors' refers to contractors for whom Alliander has a 'principal's responsibility'. 'Other third parties' are people with whom Alliander has no direct or indirect contractual relationship. These are 'passers-by'.
2 In 2012 and 2011, no fatal accidents occurred as a result of work on, or the failure of, our operating assets.

Absenteeism trend/*in percentages*



under professional supervision. In 2013, Alliander will introduce a new vitality programme aimed at reaching more employees.

Development & Training

Since 2011, Alliander has applied a unique training model, enabling employees to learn when it suits them best and according to their own learning preferences. This principle applies to all training courses, with the exception of technical courses that assure the safety and quality of our work.

Number of safety training courses[1]

By category	2012	2011
Own employees	2,171	1,612
Contract employees at constructors	156	283

1 Concerns the number of BEI (Operation of Electrical Installations) and VIAG (Gas Safety Instruction) courses that were successfully completed.

Alliander offers training courses that are aimed at professional expertise and safety as well as two courses that help to develop leadership employee competences. Employees develop new skills that support the energy transition alongside skills that are needed to maintain our existing energy network.

To help employees evolve in the organisation, we started offering Next Step workshops in 2012. In these workshops, employees can explore future career options. Horizontal steps and less demanding positions are also highlighted. Next Step helps employees move their career in new directions.

Cooperation with training institutes

The energy transition demands the recruitment of new talent with specific competences. We are working in various ways to bring theory and practice closer together. By helping students to make the right choice of study, we increase our chances of attracting properly qualified staff. We are therefore cooperating with regional vocational education institutions to develop special on-the-job training programmes. In 2012, 112 Alliander employees were working and training at Alliander to become technicians. They attended theory classes one day a week, while spending the other four days gaining practical experience with us. In addition, Alliander worked together with higher vocational colleges and universities in 2012 and set up retraining programmes with regional training centres

Employee survey

As an employer, Alliander scores well among its employees, who assessed their work and development opportunities in two different surveys.

- Employees gave the company a score of 8.3 in 2012 in the annual Towers Watson employee survey. Both the score and the identified points for improvement were the same as in 2011. Employees are positive about the commitment, customer focus and safety & working conditions. Areas for improvement are the staff appraisal process and work-life balance. The actions required to take Alliander a step further are discussed per individual business unit.
- Alongside this survey, in 2011 Alliander started taking part in Great Place to Work, an employee survey which measures the levels of trust, pride and enjoyment among employees. The outcomes of this survey help the organisation to raise its culture competences to a higher level. The relationship between management and employees proved a particular point of attention. The survey also showed that employees are proud of their personal work and teamwork. On the other hand, we see that employees want to be involved more often in decisions that have a direct bearing on their work. In 2013, Alliander will again participate in the Great Place to Work survey.

Integrity

Alliander's general values are documented in the Code of Conduct entitled "How we do things at Alliander'. This Code of Conduct consists of concrete rules of behaviour and constitutes the principal guideline for our employee's day-to-day actions. It also provides instruments for taking measures against undesirable behaviour. In 2012, 38 possible infringements of the Code of Conduct were reported. These reports are investigated on the basis of the Alliander Investigation Protocol. This can lead to measures and/or sanctions.

Confidential counsellor

At various Alliander locations, confidential counsellors were appointed to assist employees with difficult situations and conflicts. There is also a central complaints committee to deal with undesirable behaviour.

Whistleblower Policy

The Whistleblower Policy is primarily intended to enable external stakeholders and other parties to report suspected irregularities. Alliander also encourages its own staff to report any wrongdoing of a general, operational or financial nature, without compromising their own legal position. In 2012, external use was made of the Whistleblower Policy in four instances. These reports are investigated on the basis of the Alliander Investigation Protocol. This can lead to measures and/or sanctions.

Labour relation

Together with employees in the sector and trade organisations, Alliander drew up a new vision for labour relations in the network sector. Network companies and trade organisations are fully cooperating on such themes as CAO innovation, labour market and training, and social innovation in labour relations.

CAO 2.0

Alliander has rewritten the CAO together with other network companies and the trade unions Abvakabo FNV, CNV Publieke Zaak and VMHP-N. Social media were mobilised to invite employees within the network companies to give their opinion on this approach to the CAO. This represented an important innovation in the process. The current NWB-CAO, which will run until 1 May 2013, was made available online to the employees in 2012.

Social Plan

The Social Plan lays down the social principles and objectives governing organisational change processes within Alliander, including the employee placement process, redundancy support and training facilities. Alliander's Social Plan is valid until no later than 30 April 2013. Drawing on our 'Investing in people' vision memorandum, we are working on a single social plan for the sector with the primary aim of promoting 'from work to work within the sector'.

Employee representation

At Alliander, employee representation has a layered structure comprising a Central Works Council (COR), the Alliander, Liander and Endinet Works Councils, and various working groups.

Central Works Council (COR)

The COR received no less than 32 requests for decision-making, advice and approval in 2012. Among other things, advice was given on the sustainable accommodation in Duiven and approval was given for a more uniform remuneration policy and simplification of the expense statement guidelines. Points for improvement in the coming period are the redeployment of surplus employees, the quality of reorganisations and simpler company schemes. The COR also discussed these matters with the Supervisory Board. In 2013, Alliander will look at a different employee representation structure for the future, mainly to improve efficiency and broaden the participation level.

Alliander Works Council

The Alliander Works Council handled 10 requests for advice that mainly concerned optimisation, restructuring and spending cuts.

Liander Works Council

Various business units within Liander were reorganised in terms of structure and/or working practices. The Works Council was more frequently involved in the decision-making process at an early stage, so that it could provide proactive support and suggestions. In the case of issues concerning various business units, the working groups worked together and gave joint preliminary advice.

Endinet Works Council

The Endinet Works Council dealt with requests for approval, including related to the introduction of camera surveillance and access control systems at the new location. In addition, the Works Council received a request for advice on a reorganisation which could lead to redundancies. The Works Council takes the position that employees should be offered alternative posts within Endinet. Consultation about this is taking place with the management in a good atmosphere.

COR composition 2012
Ms A. Brinkman, chairwoman
Ms C.M.M. Hofman, deputy chairwoman
C. Ferbeek
D. Groen
T. Hendriks
W. Koks
Ms J.L. Lette-Timmer
ing. L.J. Lamboo
F.T. de Rijke
H.J. Schoep
M. van der Teems
J.W. Thomasson
F.J.A. Welboren
W. Wijnen

Outlook for 2013

In the coming years, Alliander will continue to build an organisation where employees trust their colleagues' professionalism and expertise, enjoy their work and are proud of what they do. We are continuously measuring the satisfaction of our employees and aim to remain a top employer.

Close regional partnerships will be further shaped in 2013. Together with educational, governmental and other parties, we can successfully overcome the problems confronting us in the labour market and education sector. Strategic personnel planning and the development of competences remain vital. Providing new employees with sufficient coaching and support is particularly important.

Reinforce cooperation

In 2013, Alliander wants to further reinforce and expand its cooperation with government, industry and education. The worlds of education and work must be even further aligned. Alliander is assisting this process by connecting partners and jointly working out regional plans in order to bring learning and working closer together.

Active in the labour market

In the coming years, Alliander will be confronted with an ageing workforce, leading to additional staff departures. At the same time, we see fewer young people opting for technical training. Alliander is actively searching the labour market for new qualified staff who can help us achieve our future objectives. In this respect, we are seeking to give our various brands a higher profile and are also conducting targeted campaigns. In addition, we are looking to improve and prolong the contribution of older employees.

More flexible and efficient working practices

The 'Alliander Works' programme was launched in 2012, introducing an innovative way of working to promote further cooperation, inspiration and innovation based on flexibility and mobility. This programme will continue to be implemented in 2013. As part of this process, Alliander is developing work stations that meet all the demands of modern flexible working practices.
Alliander's pursuit of more efficient working practices will continue unabated in 2013. Since October 2012, one of our teams in Amsterdam Sloterdijk has been working according to new 'Lean' collaborative structures with a view to performing their daily work more efficiently. Processes are discussed each day to achieve permanent improvements. Investing in operational excellence leads to a lower work load and creates better cooperation in the chain.

Step2Work: a chance in the labour market

Alliander finds it important that everyone gets a chance to take part in society. Some groups in society struggle to find their own way in the labour market.

Our Step2Work programme offers a new chance to people at a disadvantage in the labour market. Participants are not selected on such criteria as health, demonstrable work experience, ethnicity or religious belief. Step2Workers develop their potential through a personalised one-year-long programme consisting of work experience, recognised vocational training and coaching. In this way, the Step2Work programme gives participants from diverse target groups a better chance of finding a job and gaining economic independence. The original Step2Work target group was: youngsters up to age 30 at a disadvantage in the labour market.

After 5 years the scope has been extended to include new target groups, because Step2Work can also offer a solution to many others, such as people with a mental or physical handicap or over 45s who would like to return to work and still have a long working life ahead of them.

In 2012, 75 people took part in Step2Work, including 18 youngsters under the Wia/Wajong scheme and four sheltered employees. Step2Work thus helps to promote a better society in the regions we serve. The number of participants will increase further in the coming years.

shareholders and lenders

For our shareholders and providers of borrowed capital it is our ambition to be a robust, socially and economically responsible investment.

Financial policy

Ratio	Result	Norm
FFO/net debt	30.9%	> 20%
Interest cover	6.0	> 3.5
Net debt/(net debt + equity)	37.7%	< 60%
Solvency	49.5%	> 30%
Rating		
S&P	A+/A-1/positive outlook	Solid A rating profile
Moody's	Aa3/P-1/stable outlook	

Our aim is continually to outperform the sector in terms of operational excellence, returning solid results compatible with the regulated permitted profit. Alliander has a healthy financial position, enabling the company to realise its operational and social goals, including the energy transition, which is discussed in greater detail elsewhere in this report. Retaining ready access to sources of finance is very important for Alliander. There is accordingly an active programme of investor relations activities directed at Alliander's financial stakeholders. In essence, these

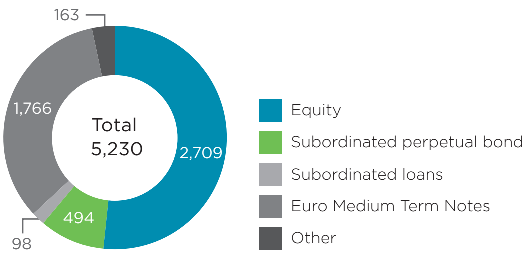
Alliander's financial stakeholders

activities are largely determined by the company's financial policy. At the heart of the investor relations activities is the regular briefing of the financial stakeholders and providing them with opportunities to question us regarding our financial position and performance and developments affecting the figures concerned. This section provides an insight into our relations with financial stakeholders and into Alliander's financial policy, financial position and performance in 2012.

Various instruments are used to fund the maintenance and expansion of the energy distribution networks and other activities, for which Alliander is dependent on its shareholders, institutional investors and banks. Alliander's creditworthiness is rated by rating agencies who publish their findings.

The capitalisation of Alliander as at year-end 2012 was made up as follows:

Capital structure Alliander/*€ million*



The capital structure reveals that Alliander's financing is more or less equally divided between equity and borrowed capital. The equity capital is provided by the shareholders and increases annually by the amount of the earnings retained. The shareholders receive a percentage of the net profit as dividend each year. Holders of the hybrid bonds also receive a fixed return on their investment out of the reported profit provided the dividend is declared.
The profit which is retained is used as a source of finance. Alliander does not have access to finance by issuing new shares to private investors because private shareholdings in Dutch regional network companies are prohibited by law. To raise external finance, Alliander needs to turn to providers of borrowed capital. These are mainly institutional investors that buy debt instruments issued by Alliander. To meet its long-term finance requirements, Alliander has issued six bond loans that are quoted on the stock exchange, including a subordinated perpetual bond.

The loans are listed on the Luxembourg Stock Exchange and NYSE Euronext Amsterdam. To meet its variable finance needs in the short-term, Alliander regularly issues short-term commercial paper. Additionally, Alliander has contracted committed credit facilities with a number of banks to serve as a source of finance, should it not be possible to raise the necessary funds on the capital market or the money market.

Open dialogue

Alliander pursues an active policy of maintaining an open and constructive dialogue with shareholders, bondholders, financial institutions, credit rating agencies, analysts and the media. We endeavour to provide all stakeholders with relevant financial and other information as accurately and promptly as possible, in reports, in press releases and in meetings as well as by other means.

Financial policy and long-term objectives

Alliander's financial policy and long-term objectives aim 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 N.V. and Endinet B.V., separate criteria pursuant to the Network Operators Financial Management Decree (Besluit Financieel Beheer Netbeheerder) apply.

Financial framework

Alliander's financial framework is formed by the ratios FFO/net debt, interest cover, net debt/net debt plus equity and equity as a percentage of total assets less deferred income (solvency ratio). In a departure from IFRS, the subordinated perpetual bond loan issued in 2010 is treated as 50% equity and 50% borrowed capital.

Ratios

Ratios in accordance with Alliander's financial policy

	norm	31 December 2012	31 December 2011
FFO/net debt [1]	> 20%	30.9%	34.1%
Interest cover [2]	> 3.5	6.0	5.8
Net debt/(net debt + equity)	< 60%	37.7%	37.0%
Solvency [3]	> 30%	49.5%	47.5%

The financial framework within which Alliander operates is based on the four ratios presented in the above table. These ratios are calculated according to the principles of our financial policy. These principles differ in one regard from IFRS accounting policies in that the subordinated perpetual bond loan is treated as equity under IFRS but as 50% borrowed capital and 50% equity for the purposes of our financial policy.

1 The ratio of funds from operations (FFO) to net debt concerns the 12-month profit after tax, adjusted for the movements in the deferred tax assets and liabilities, for the incidental items and fair value movements, plus the balance of depreciation and amortisation of property, plant and equipment and intangible assets and deferred income, divided by the net debt.
2 The interest cover ratio concerns the 12-month profit after tax, adjusted for the movements in the deferred tax assets and liabilities, for the incidental items and fair value movements, plus the depreciation and amortisation of property plant and equipment and intangible assets and the net amount of finance income and expense, divided by net finance income and expense adjusted for incidental items and fair value movements.
3 The solvency ratio is arrived at by dividing equity including the profit for the period by the balance sheet total less the expected dividend distribution to be made in the current year and less deferred income.

As at 31 December 2012, the FFO/net debt ratio amounted to 30.9% (year-end 2011: 34.1%). This decrease is mainly the effect of the increase in the net debt position. As at 31 December 2012, the interest cover ratio worked out at 6.0, which is a slightly higher figure than at year-end 2011 (5.8). The ratio of net debt/sum of net debt and equity as at 31 December 2012 amounted to 37.7% (year-end 2011: 37.0%). The slight increase is largely due to an increase in the net debt position in 2012. Alliander's financial policy stipulates that this ratio should not exceed 60%. The solvency ratio as at 31 December 2012 amounted to 49.5% (year-end 2011: 47.5%). Alliander's financial policy stipulates that this ratio should be a minimum of 30%.

Dividend policy

The dividend policy (as part of the financial policy) provides for distributions out 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 ratio falls below 30% after payment of dividend. Also taken into account is the requirement formulated by the Minister of Economic Affairs when the integrated energy companies where unbundled, limiting the dividend up to 1 January 2014 to a maximum of 45% of the profit after tax.

Investment policy

The investment policy is consistent with the financial policy and is part of Alliander's strategy. Elements of investment policy include compliance with regulatory requirements relating to investments in the regulated domain, generation of an adequate return on investment and social acceptance and support. 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.

Shareholders

All of Alliander's shares are held directly or indirectly by Dutch provincial and municipal authorities. The major shareholders are (percentages rounded):

- Province of Gelderland 45%
- Province of Friesland 13%
- Province of Noord-Holland 9%
- City of Amsterdam 9%

The remaining shareholders each hold less than 3% of the shares. A full list of the shareholders can be found on the Alliander website (alliander.com). For provisions governing the issue of shares, pre-emptive rights, repurchase of shares and reductions in share capital, reference is made to the company's Articles of Association, which can also be found on alliander.com.

The articles also stipulate among other things that shareholders may exclusively be i) the Dutch state, ii) a provincial authority, iii) a municipal authority or iv) public or private limited liability companies whose shares, pursuant to their Articles of Association, may exclusively be held directly or indirectly by the Dutch state, a provincial authority or a municipal authority. This means Alliander is not allowed to be privatised. Each share of Alliander N.V. confers the right to cast one vote.

The authorised share capital of Alliander N.V. is divided into 350 million shares with a nominal value of five euros. All the shares are registered shares. As at 31 December 2012, there were 136,794,964 issued and paid-up shares.

Contacts with shareholders

Contacts with shareholders primarily take place in shareholders' meetings and through the Committee of Shareholders. Additionally we find regular interaction outside the formal meetings important. This gives us valuable feedback on the company's strategic and day-to-day management and also provides an insight into the wishes and concerns of shareholders.

The Annual General Meeting of Shareholders took place on 12 April 2012. The meeting considered the 2011 annual report and formally adopted the 2011 financial statements and the dividend declaration in respect of 2011. At the same meeting, the shareholders ratified the actions of the members of the Management Board and Supervisory Board in performing their duties. The meeting also passed the proposed revised resolution providing for a total capital expenditure of € 979 million for the roll-out of smart meters over the next few years. A resolution reappointing the presiding Committee of Shareholders for a period of two years was also adopted and Ms J.B. Irik and Mrs A.P.M. van der Veer-Vergeer were reappointed members of the Supervisory Board.

The Committee of Shareholders is a group of shareholders appointed by the General Meeting of Shareholders from among their number on which certain powers are conferred to represent shareholders. These powers concern the right to recommend candidates for appointment to the Supervisory Board and to appoint and dismiss its members and a number of powers relating to the appointment and dismissal of members of the Management Board. The composition of the Committee, can be found on the Alliander website (alliander.com).

In 2012, the Supervisory Board consulted the Committee of Shareholders in writing on three occasions concerning the appointment and reappointment of Supervisory Board members. On 20 January 2012, the Committee was advised of two vacancies on the Supervisory Board. For the vacancies concerned, which had arisen in connection with the retirement of Ms J.B. Irik and Mrs A.P.M. Van der Veer-Vergeer, the Committee of Shareholders did not have any enhanced right of recommendation but only an ordinary right of recommendation [1]. The Committee indicated that

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.

it would not be exercising its right of recommendation. On 5 November, the Committee of Shareholders was advised of an interim vacancy arising on the Supervisory Board, following the death of Mr G. Ybema. In the case of this interim vacancy, the Committee of Shareholders did have an enhanced right of recommendation and exercised this right by recommending Ms J.W.E. Spies for appointment to the Supervisory Board. On 13 December, the Committee was advised of the vacancies arising after the Annual General Meeting of Shareholders (AGM) to be held on 27 March 2013 and concerning the proposal to reduce the number of members of the Supervisory Board from seven to six.

In preparation for the Annual General Meeting of Shareholders held on 12 April 2012, the Committee had a meeting with the Selection, Appointment and Remuneration Committee on 15 March to discuss the achievement of the objectives for the short-term and long-term variable remuneration of the Management Board for 2011 and the 2011 Remuneration Report. Also discussed were the consequences of the Bill before parliament concerning the regulation of top salaries in the public and semi-public sector (Wetsvoorstel Normering bezoldiging topfunctionarissen publieke en semi-publieke sector).

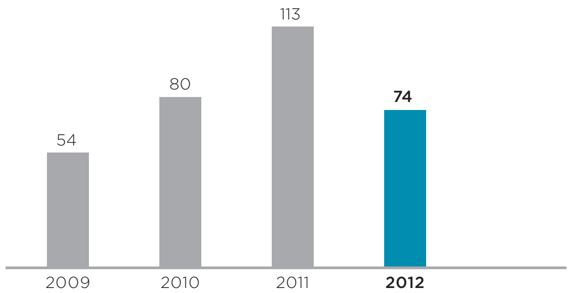
Shareholder briefings were organised on 13 February and 30 July at which the Management Board gave presentations covering the results for the 2011 financial year and the interim results in 2012, respectively.

The Major Shareholder Consultation Body met on three occasions in 2012, preceded on each occasion by a meeting of the Sounding Board Group. The Sounding Board Group is an informal discussion forum at working group level which makes preparations for the Major Shareholder Consultation Body's deliberations. The Major Shareholder Consultation Body is in turn an informal government body in which preparations are made for the AGM, providing a forum for discussion of relevant evelopments, information exchange and promotion of mutual understanding.
In these deliberations, the same shareholders and shareholder groups are represented as in the Committee of Shareholders. Discussions ranged over such matters as the strategic and day-to-day management of the company, trends in tariffs and developments in the fields of energy transition, innovation and sustainability.
There were also regular contacts with shareholders on an individual level and at the level of, for example, provincial government committees, clusters of shareholder municipal authorities and representatives of political parties regarding Alliander's course and strategy as well as practical matters concerned with implementation.

2012 profit appropriation

The Management Board has determined, with the approval of the Supervisory Board, to add € 150.0 million of the profit to other reserves. The remaining profit of € 74.4 million is at the disposal of the General Meeting of Shareholders. This is based on the profit after tax, excluding incidental items after tax that did not generate cash flows in the 2012 financial year.

Dividend/*€ million*



The lower dividend for 2012 compared with 2011 is mainly a consequence of the inclusion in the dividend computations for 2011 of the non-recurring income resulting from the settlement of corporate income tax assessments relating to prior years, giving rise to a dividend pay-out of € 113.0 million for 2011.

Institutional investors

A large part of our finance in the form of borrowed capital is provided by institutional investors in our bond issues, such as asset managers, insurance companies, pension funds and banks. These are professional parties on the international financial markets. In order to keep existing and potential bondholders informed regarding the company's financial position and results as well as developments in the industry, Alliander actively engages in investor relation activities in addition to complying with ordinary publication requirements. We organise roadshows, visiting investors on-site with regular updates on Alliander's financial performance, the strategic and day- to-day management of the business, trends in tariffs and other developments that are of importance in forming a picture of Alliander's creditworthiness and arriving at investment decisions involving Alliander.

In February 2012, Alliander held roadshows in Amsterdam, Paris, London and Frankfurt to publicise the company's annual results and other relevant developments. One-to-one talks with a number of investors also took place. Coinciding with the publication of the half-year figures at the end of July, an investor conference call was held, allowing investors to listen to a presentation of the figures on the telephone with the opportunity to ask questions. Throughout the year there were regular contacts with investors and analysts in response to questions and requests for information.

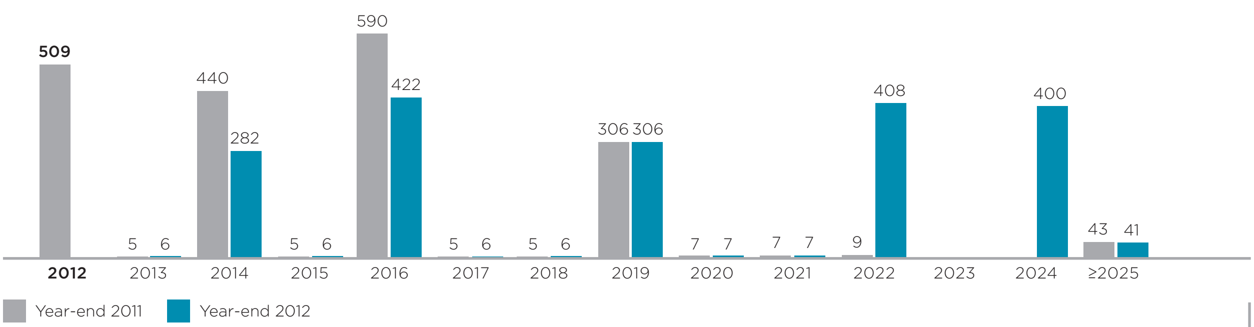
Capital market and money market activities

During the year under review, Alliander was active on the capital market and the money market in connection with a refinancing operation and a liability management transaction:

- in April, as contractually required, a € 500 million bond loan issued under the Euro Medium Term Notes (EMTN) programme was repaid, with funds provided partly from available cash and partly out of the proceeds from the issue of Euro Commercial Paper (ECP);
- in June, Alliander issued a new bond loan under the existing EMTN programme with a face value of € 400 million, a maturity of 12 years and a coupon rate of 2.875%. The funds raised were used to redeem the ECP in issue on schedule;
- in November, Alliander issued a new bond loan , again under the existing EMTN programme, with a face value of € 400 million, this time with a maturity of 10 years and a coupon rate of 2.25%. This issue took place after the success of a previously announced offer to buy back bonds maturing in 2014 and 2016. In total, bonds with a face value of € 324 million issued under the EMTN programme were redeemed. Investors taking up the offer were granted preferential allocation, on request, with respect to the issue of the new bond loan. This request for preferential allocation was made in the case of roughly half of the bonds offered for redemption. These two transactions produced a more regular maturity profile for the debt, extending farther into the future. In the longer term, this will lead to lower interest charges.

The repayment schedule for the interest-bearing debt as at year-end 2012 was as follows:

Repayment schedule for interest-bearing debt/*€ million*



The amounts scheduled for repayment in 2014, 2016, 2019, 2022 and 2024 mainly relate to the bond loans. The other amounts relate to the repayment of shareholder loans and other loans.

Alliander has a € 3 billion EMTN programme. As at year-end 2011, bonds totalling € 1.8 billion had been issued. In 2012, a total nominal amount of € 824 million was repaid/redeemed early and a nominal amount of € 800 million was issued, meaning that bonds with a carrying amount of € 1,766 million were in issue as at 31 December 2012 (nominal amount: € 1,776 million).

Alliander also has a € 1.5 billion ECP programme. Under this ECP programme, an amount of € 537 million was issued in the year under review. As at year-end 2012, however, all the ECP loans had been repaid.

Banks

Alliander has contracted a committed backup credit facility totalling € 600 million with six banks. The facility runs until 15 July 2017, with the option of an extension by 12 months, until 15 July 2018. Part of this facility can also be used to issue letters of credit relating to cross-border leases. The facility has not been drawn on. During the year, a number of the banks concerned, not always in the same composition, were involved in the issue of the aforementioned two bond loans and the partial buyback of the two existing bond loans. A number of banks were also involved in the issue of commercial paper. The option to extend the credit facility with the group of banks by 12 months until 15 July 2017 was also exercised in 2012.

Rating agencies

In order to retain ready access to the capital and money markets, it is important for existing and potential financiers to have an accurate picture of Alliander's creditworthiness and associated credit ratings. Having a recognised credit rating is also an obligation under the terms of the cross-border lease contracts entered into at the end of the 1990s by Alliander's legal predecessors.

Alliander has a credit rating from S&P and Moody's. These ratings comprise a long-term rating with an outlook, and a short-term rating. The outlook is an indication of the expected change in the rating over the next few years. In 2012, there have been no changes in the ratings or in the outlook. The credit ratings as at year-end 2012 were as follows:

Credit ratings

	long-term	short-term
Standard & Poor's	A+ (positive outlook)	A-1
Moody's	Aa3 (stable outlook)	P-1

Alliander has also been rated in recent years by rating agencies looking at corporate social responsibility. These CSR ratings are intended to give institutional investors an idea of how worthy of investment Alliander is from the point of view of sustainability. Topics covered by these ratings include environmental management, labour relations, customer relations, business ethics and corporate governance.

During the reporting period, Alliander was in contact with both types of rating agency on several occasions. Once a year there is a review in which the company's creditworthiness and sustainability credentials are re-examined by reference to the most recent financial and sustainability performance figures and projections for Alliander. The rating agencies publish their review findings and updates. At the time of issue of the new bond loans in June and November, issue ratings were also published by S&P and Moody's. They were the same as the corporate ratings.

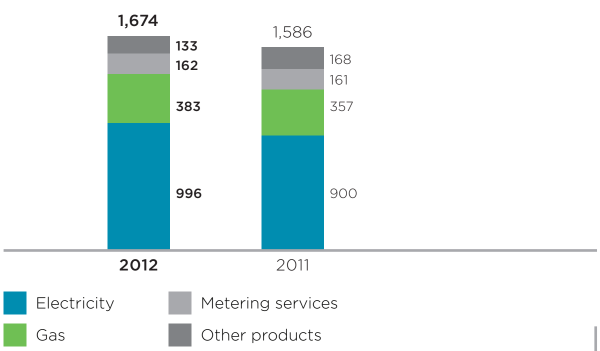
Financial results in 2012

The profit after tax for 2012 was € 224 million (2011: € 251 million). Excluding incidental items and fair value movements, the net profit was € 228 million (2011: € 228 million). In the 2012 reporting period, the regulated revenue was higher than in the preceding year, taking advantage of the higher tariff ceiling allowed by the Office of Energy Regulation the increased level of maintenance and network investments, as reflected in the costs of subcontracted work, operating expenses and amortisation/depreciation charges.

The cash flow from operating activities was slightly down, the solvency ratio and the net debt position increased and total assets increased by € 96 million, partly accounted for by an increase in the capital expenditure on the networks.

2012 income statement

Revenue/*€ million*



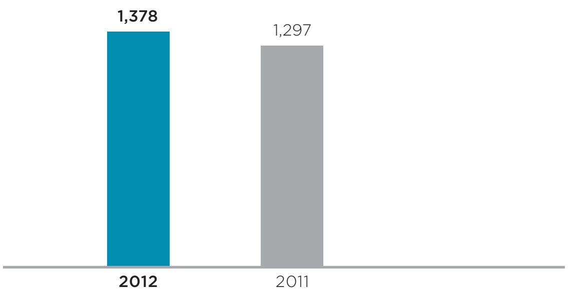
Revenue for 2012 was up by € 88 million (6%) compared with 2011, at € 1,674 million. This increase is largely accounted for by higher energy distribution tariffs (€ 122 million) for both electricity and gas (regulated activities), partially offset by lower revenue from deregulated activities (€ 35 million) reported by Liandon and Alliander AG among others.

Other income

Other income in 2012 came in at € 98 million (2011: € 109 million). The decrease of € 11 million is mainly due to a one-off compensation payment of € 7 million in 2011 connected with an incident involving a powder fire extinguisher.

Operating expenses

Total operating expenses/*€ million*



Total operating expenses for 2012 came in at € 1,378 million (2011: € 1,297 million). The increase of € 81 million compared with 2011 is mainly due to a higher level of activities connected with maintenance and capital projects and an increase in costs outside Alliander's control, resulting in:

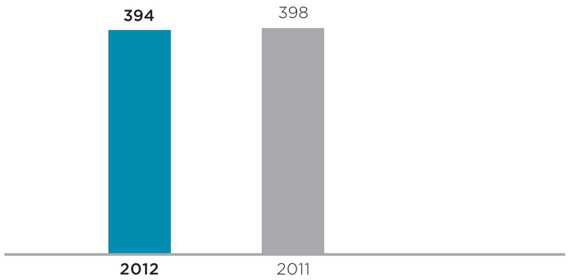
- an increase in both payroll and contract labour staff costs, totalling € 60 million. This was partly attributable to reorganisation costs amounting to € 15 million connected with organisational changes;
- higher amortisation/depreciation charges and a higher level of investment in the networks during the year but also affected by an increase in disposals – combined effect € 26 million;
- an increase in sufferance tax of € 13 million.

The increase in costs was partly offset by an increase of € 29 million in capitalised own production connected with the increased level of capital expenditure.

Operating profit

The operating profit for 2012 was down by € 4 million at € 394 million. Excluding incidental items, the operating profit came in at € 409 million, an increase of € 11 million compared with 2011.

Operating profit/*€ million*



Finance income and expense

Finance income and expenses in 2012 resulted in a net expense of € 145 million (2011: € 176 million). The reduction of € 31 million is due to the difference in fair value movements on financial instruments, a gain of € 39 million, and lower regular interest charges, down by € 7 million. The gains were partly cancelled out by higher costs (€ 14 million) connected with the bond buyback operation.

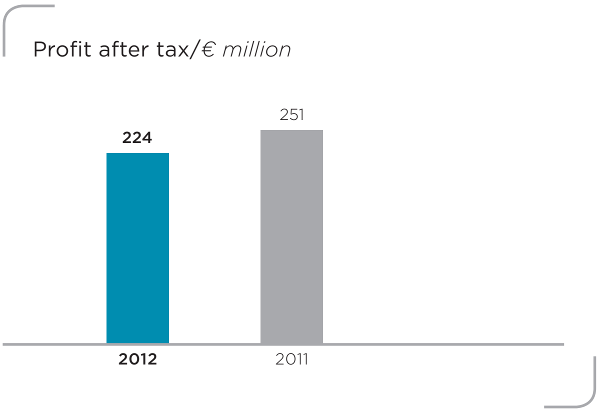
Associates and joint ventures

The share in the results after tax of associates and joint ventures in 2012 was a loss of € 15 million (2011: € 5 million loss). The 2012 and 2011 results include 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 2012 financial year was 4% (2011: 15.1% negative). The difference between the standard rate of taxation and the effective tax burden in both years is mainly the effect of an adjustment in the forecast results in the long-term, which led to an increase in the carrying amount of the deferred tax assets, and the finalisation in 2011 of the corporation tax assessments for prior years.

Profit after tax



The profit after tax for the year came in at € 224 million (2011: € 251 million). Excluding incidental items and fair value movements, the net profit for 2012 was € 228 million (2011: € 228 million). This result is accounted for by higher revenue (€ 88 million) resulting from the increase in regulated tariffs, the gain largely being offset by higher costs and amortisation/depreciation charges with a combined downside effect of € 81 million.

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 2012 combined to give a loss of € 4 million after tax (2011: € 23 million gain). The following table 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	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Revenue	1,674	1,586	-	-	1,674	1,586
Other income	98	109	-	-	98	109
Total purchase costs, costs of subcontracted work and operating expenses	-1,222	-1,137	-15	-	-1,207	-1,137
Depreciation and impairments	-337	-312	-	-	-337	-312
Own work capitalised	181	152	-	-	181	152
Operating profit (EBIT)	**394**	**398**	**-15**	**-**	**409**	**398**
Finance income/(expense)	-145	-176	-50	-75	-95	-101
Results from associates and joint ventures	-15	-5	-12	-12	-3	7
Profit before tax	**234**	**217**	**-77**	**-87**	**311**	**304**
Tax	-10	34	73	110	-83	-76
Profit after tax	**224**	**251**	**-4**	**23**	**228**	**228**

Total purchase costs, costs of subcontracted work and operating expenses

(2012: € 15 million expense, 2011: nil)

The exceptional expense in 2012 is associated with the formation of the provision for reorganisation costs connected with organisational changes.

Finance income and expense

(2012: € 50 million expense; 2011: € 75 million expense)

The exceptional items mainly relate to:

- premium paid for the early redemption of bonds, € 44 million (2011: € 30 million);
- fair value movements on interest rate swaps, loss of € 18 million in 2012 (2011: € 39 million loss). In October 2012, the interest rate swaps were settled prior to maturity for an amount of € 57 million;
- items connected with cross-border leases, including costs arising from the revaluation of an asset relating to a cross-border lease construction and the movement in the associated provision, totalling € 9 million gain (2011: € 5 million loss). Also accounted for under this heading is the amount of KEMA's put and call options, totalling € 3 million.

Share in results of associates and joint ventures

(2012: € 12 million loss; 2011: € 12 million loss)

In both years, this relates to impairment losses arising from adjustments to the projected medium-term results.

Tax

(2012: income item of € 73 million; 2011: € 110 million income)

Incidental income in 2012 and 2011 relates to adjustment of the projected long-term results with a positive effect on deferred tax, the tax effect on the incidental items and fair value movements and the finalisation in 2011 of the corporation tax assessments for prior years.

Cash flows

Shown below is a summary of the cash flow statement for 2012.

Consolidated cash flow statement

€ million	2012	2011 [1]
Cash flow from operating activities	545	557
Cash flow from investing activities	-498	-398
Cash flow from financing activities	-53	-554
Net cash flow	**-6**	**-395**

1 The figures for 2011 have been restated in connection with a change in presentation to include the premium paid in connection with the early redemption of bonds in the cash flow from financing activities.

The cash flow from operating activities in 2012 amounted to € 545 million (2011: € 557 million). The slightly lower figure compared with 2011 is mainly due to a lower profit after tax in 2012. The cash flow from operating activities covers the increase of approximately € 100 million in investing activities.

The cash outflow associated with investing activities in 2012 increased from € 398 million to € 498 million. The increase of € 100 million is largely explained by the increase in capital expenditure on the networks.

Investments in property, plant and equipment

€ million	2012	2011
Electricity regulated	272	236
Gas regulated	182	135
Metering devices	52	44
Buildings, ICT etc.	72	60
Total	**578**	**475**

The cash flow from financing activities in 2012 amounted to € 53 million negative (2011: € 554 million negative). The difference of € 501 million is due in part to the issue in 2012 of two new bond loans totalling € 800 million. In addition, bonds amounting to € 500 million were redeemed on schedule in 2012 and bonds in issue amounting to € 324 million were repurchased prior to maturity. An amount of € 220 million was also withdrawn from short-term deposits during the year, leaving a year-end balance of € 75 million. Finally, dividends totalling € 113 million were distributed along with € 24 million in coupon interest on the perpetual subordinated bond loan.

The settlement in October 2012 of four interest rate swaps, involving a total amount of € 57 million, and the premium paid in connection with the early redemption of bonds, amounting to € 44 million (2011: € 30 million) have been included in the cash flow from financing activities.

Free cash flow in 2012

The free cash flow in 2012 totalled € 47 million, compared with a free cash flow in 2011 of € 159 million. The decrease of € 112 million compared with 2011 is largely explained by the increase in capital expenditure on the networks.

Reconciliation free cash flow

€ million	2012	2011 [1]
Cash flow from operating activities	545	557
Investments in property, plant and equipment	-578	-475
Investments in associates	-5	-4
Construction contributions received	85	81
Free cash flow	**47**	**159**

1 The figures for 2011 have been restated in connection with a change in presentation to include the premium paid in connection with the early redemption of bonds in the cash flow from financing activities.

Financial position

Net debt

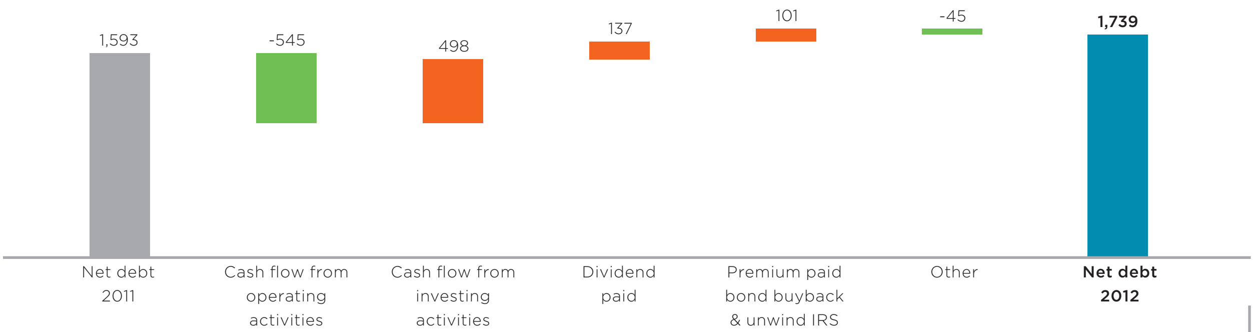
The following table presents the reconciliation of the net debt position as at 31 December 2012:

Reconciliation net debt position

€ million	31 December 2012		31 December 2011	
Long-term interest-bearing debt	1,891		1,422	
Short-term interest-bearing debt	5		509	
Finance lease liabilities	131		133	
Gross debt		**2,027**		**2,064**
Cash and cash equivalents	100		106	
Non-current financial assets	137		130	
Interest-bearing receivables from third parties	46		38	
Current financial assets	75		295	
Investments held for lease obligations related to cross-border leases	177		149	
Total cash and cash equivalents and investments		**535**		**718**
Net debt in accordance with the financial statements (IFRS)		**1,492**		**1,346**
50% of the subordinated perpetual bond loan		247		247
Net debt on the basis of Alliander's financial policy		**1,739**		**1,593**

The net debt position as at 31 December 2012 amounted to € 1,739 million (2011: € 1,593 million). This is an increase compared with the net debt position as at year-end 2011 of € 146 million. The following graph provides further analysis of this increase.

Development in net debt position/*€ million*



The increase in the net debt position in 2012 by € 146 million is mainly due to the dividend distributions to shareholders in 2012 and the interest payments to the holders of the subordinated perpetual bond loan during the year, together totalling € 137 million, plus the premium paid in connection with the early redemption of bonds (€ 44 million) and the settlement of the interest rate swaps (€ 57 million). The increase in the net debt position is partly compensated by the balance of the free cash flow (€ 47 million) and the € 35 million increase in 2012 of the available-for-sale financial assets. The latter is accounted for under 'Other'.

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 116 of the financial statements.

Primary segmentation

	Network operator Liander		Network company Endinet		Other		Eliminations		**Total**	
€ million	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Operating income										
External income	1,558	1,433	109	114	105	148	-	-	1,772	1,695
Internal income	12	11	-	-	313	284	-325	-295	-	-
Total operating income	**1,570**	**1,444**	**109**	**114**	**418**	**432**	**-325**	**-295**	**1,772**	**1,695**
Operating expenses										
Total operating expenses	**1,178**	**1,076**	**87**	**88**	**423**	**428**	**-325**	**-295**	**1,363**	**1,297**
Operating profit	**392**	**368**	**22**	**26**	**-5**	**4**	**-**	**-**	**409**	**398**

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 2012 was up by € 125 million compared with 2011, at € 1,558 million. This increase is mainly accounted for by the increase in the regulated tariffs in 2012. Operating expenses increased, by € 102 million, mainly owing to higher maintenance costs and depreciation charges. Operating profit was € 24 million higher compared with 2011, at € 392 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..

The external operating income in 2012 amounted to € 109 million, a decrease of € 5 million compared with 2011. This reduction is accounted for by the sale in 2012 of the public lighting and traffic signal activities to Ziut B.V.. The effect on the external income is € 9 million. The negative effect is partially compensated by higher regulated tariffs.

Operating expenses came in at € 87 million (2011: € 88 million). The operating profit for 2012 was € 22 million (2011: € 26 million). The drop is due to lower external operating income.

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 2012 was down € 43 million compared with 2011, at € 105 million. This decrease was a consequence of lower external income generated by Liandon B.V., together with other factors. The operating profit for the 2012 was € 5 million negative (2011: € 4 million positive).

Balance sheet

The abridged balance sheet as at 31 December 2012 is shown below.

Consolidated balance sheet

	Alliander N.V.	
€ million	**31 December 2012**	**31 December 2011**
Assets		
Non-current assets	6,875	6,612
Current assets	539	706
Total assets	**7,414**	**7,318**
Equity and liabilities		
Total equity	3,203	3,079
Non-current liabilities	3,758	3,264
Current liabilities	453	975
Total equity and liabilities	**7,414**	**7,318**

The following notes explain the significant changes in the balance sheet as at 31 December 2012 relative to the situation as at 31 December 2011. Detailed information on balance sheet items is given in the financial statements.

Non-current assets

The amount of non-current assets as at 31 December 2012 was € 263 million higher than as at 31 December 2011. This increase is mainly accounted for by the higher level of investment in the networks despite the fact that depreciation of the network assets also increased. There was also an increase of € 35 million in available-for-sale financial assets following re-measurement of the carrying amounts to a higher value. The deferred tax asset was reduced by € 11 million compared with the position as at year-end 2011. This reduction results mainly from utilisation of the tax break permitting accelerated depreciation of investments and higher depreciation for tax purposes. 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 € 58 million.

Current assets

The decrease of € 167 million in current assets compared with the position as at 31 December 2011, to a figure of € 539 million, is partly due to the reduction in the short-term deposit position. The balance of trade receivables increased compared with the position as at year-end 2011, partly because of the increase in regulated revenues.

Equity

Equity as at 31 December 2012 increased by € 124 million compared with the level as at year-end 2011, to € 3,203 million. This increase is mainly accounted for by the net profit for 2012, amounting to € 224 million, less the dividend distribution for 2011 made in 2012 (€ 113 million). Additionally, the revaluation reserve relating to available-for-sale financial assets increased by € 28 million. A summary of the movements can be found on page 104 of the financial statements.

Non-current liabilities

The amount of non-current liabilities was up by € 494 million compared with the position as at 31 December 2011. This increase was mainly due to the issue of bond loans under the EMTN programme totalling € 800 million, partially offset by the effect of repurchasing existing bonds in issue involving an amount of € 324 million.

Current liabilities

The current liabilities as at 31 December 2012 were down by € 522 million compared with the position as at year-end 2011, at € 453 million. This decrease is mainly due to the repayment of part of the EMTN portfolio in April 2012 (€ 500 million).

Events after balance sheet date

Network company Alliander will enter into a partnership with KPN and Entropia Digital in setting up a dedicated mobile telecommunications network for energy networks. In connection with this alliance, Alliander acquired the entire share capital of Utility Connect B.V. from KPN on 1 February 2013 for an initial purchase price of € 7 million. Utility Connect holds a CDMA frequency licence. Also on 1 February 2013, the entire share capital of Entropia Assets B.V. was acquired by Alliander from Entropia Digital B.V. for an amount of € 11 million. Entropia Assets owns the network of transmission masts.

In the years ahead, Alliander expects to see the expansion of ‘smart grids’. Such networks incorporate sensors to allow better remote monitoring and control of energy flows. Data communications traffic will become more intensive and more important as a consequence and wireless telecommunications have an important role to play in these developments. Alliander’s partnership with KPN and Entropia Digital is in anticipation of them.

Outlook for 2013

Investment

Gross capital expenditure, mainly on replacement and expansion of the networks but also including energy transition investment in SASensors, telecommunications networks and charging points for electric vehicles, will amount to a total of € 450-500 million. The pace of development of decentralised generation and feed-in to the 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 secure good access to the capital market at all times by maintaining a solid A rating profile and by such means as ensuring a balanced repayment schedule, having a balanced investment plan, controlling operating costs, having access to committed credit facilities and maintaining adequate reserves of cash and cash equivalents.

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 2013, we expect, barring unforeseen and non-recurring developments, a higher operating profit in 2013 than in 2012.

2012 in our regions

Every day millions of customers count on access to electricity and gas. Alliander makes it happen. We are working on a reliable, safe and sustainable energy supply for today and tomorrow. To cater to the local differences in energy needs and energy generation opportunities, Alliander opts for a regional approach.

Noord-Holland	58
Amsterdam	60
Zuid-Holland	62
Flevoland	64
Gelderland	66
Friesland	68
Noord-Brabant	70

In the Alliander Year Plan 2012 we projected the investments in our networks for each region. In this report we show the actual investments made in 2012.

Replacement and expansion

To facilitate the increase in decentralised renewable energy generation and meet the growing demand for energy, we invested in the replacement and expansion of our networks. We initiated various pilot projects to gain experience with the construction, monitoring and management of new technologies in infrastructure. We also built the first intelligent networks in Amsterdam and Ede. With these intelligent networks, any future interruptions to the energy supply can be resolved more rapidly.

Safety and reliability

In 2012, we devoted a lot of attention to the safety of our networks. Failure detectors have been installed in various regions to reduce repair times. We also invested in the replacement of gas pipes made of grey cast iron. By renewing the gas pipelines, we can make the network more reliable and even safer. Our work was timed, wherever possible, to coincide with the underground works of other parties in order to minimise the inconvenience for customers. Thanks to this efficient approach, we replaced more grey cast iron pipes in 2012 than we had originally planned.

Smart meters

In 2012, Liander and Endinet began offering smart meters on a small scale. A total of 225,000 smart meters were placed, notably in new-build and replacement projects. That was more than predicted in the year plan, and was mainly due to a larger number of priority placements and the combination with replacement and maintenance work.

Together with the regions

At the request of regional authorities, Alliander also carried out reconstructions. Among other things, various projects were launched to shift cables and pipes to enable road building and other activities. The implementation of the work depends strongly on the work schedules of our principals. A number of planned projects are therefore continuing into 2013.

A brief description of our activities in the regions can be found in this annual report. We also report on our projects in the Customers section.
Our website gives a more detailed picture for each region: jaarverslag. alliander.com/2012.

Regional information

		Noord-Holland		Amsterdam		Zuid-Holland		Gelderland		Flevoland		Friesland		Noord-Brabant	
		actual	year plan	actual	year plan	actual	year plan	actual	year plan	actual	year plan	actual	year plan	actual	year plan
Electricity [1]	Expansion	48.1	38.0	20.0	14.6	19.2	24.6	54.2	43.6	10.7	12.8	18.0	25.6	3.1	2.7
	Replacement	12.9	13.8	21.9	25.7	17.2	13.9	23.3	18.2	2.4	3.7	7.1	7.9	2.8	2.5
Gas [1]	Expansion	8.5	8.7	6.2	4.1	3.6	4.1	18.3	12.3	1.8	4.3	0.6	0.6	4.4	3.7
	Replacement	23.5	17.6	43.5	26.8	19.9	18.8	39.3	24.1	1.3	0.3	1.9	0.9	8.3	7.6
Total electricity, gas [2]		**93.0**	**78.1**	**91.6**	**71.2**	**59.9**	**61.4**	**135.1**	**98.2**	**16.2**	**21.1**	**27.6**	**35.0**	**18.6**	**16.5**
Smart meters	Installations [3]	40,250	7,300	66,849	34,500	18,679	13,500	63,560	49,500	15,459	6,600	7,144	13,800	12,837	21,000
Electricity outage duration	minutes per year	**27.7**		**31.3**		**24.9**		**20.9**		**20.1**		**16.4**		**8.6**	

1 In € million.
2 In this table, the investments are allocated to the regions in accordance with the starting points for the year plan 2012. An amount of € 12 million has not been allocated to the separate regions.
3 The method of reporting on smart meters was changed in 2012. In the year plan 2012, the number of smart meters installed is based on the number of combinations of both electricity and gas meters installed. The numbers realised in 2012 are based on the number of individual electricity and gas meters installed. For proper comparison, the year plan numbers have been adjusted in the above table to the number of individual smart electricity and gas meters installed.

residual heating gives neighbourhoods new energy

Noord-Holland

customers
917,000

smart meters installed
40,250

In the coming years, the province wants to switch over to more renewable energy sources. Alliander is helping them achieve this. We invested in intelligent networks, installed more than 40,000 smart meters in 2012 and helped greenhouse growers in Noord-Holland to realise their wish of producing electricity using CHP installations and feeding it into our network. In 2012 we also connected a green gas producer in Haarlem to the gas network.

Read more about our activities in Noord-Holland at jaarverslag.alliander.com/2012

CHP installations generate electricity

Amsterdam is buzzing with energy

Amsterdam

customers
434,000

smart meters installed
66,849

Amsterdam is home to a growing number of people and businesses. Alliander is adapting the city's energy network to meet its energy needs, both today and tomorrow. With an intelligent network in Amsterdam, we can more easily and cheaply facilitate future energy developments, such as new and bigger data centres or the large-scale use of electric cars. We also worked on the safety of the energy network in Amsterdam.

Read more about our activities in Amsterdam at jaarverslag.alliander.com/2012

Work in progress in Amsterdam

working together on local plans

Zuid-Holland

customers
271,000

smart meters installed
18,679

The province of Zuid-Holland is aiming for more renewable energy generation from wind, residual heating and biomass. Alliander is adapting the energy networks to facilitate this goal. In 2012, we invested € 59.9 million in the replacement and expansion of the energy networks in Zuid-Holland. We improved the network to facilitate local plans, such as the expansion of greenhouse activities in Nieuwveen. And we worked on the electricity network around Leiden Central Railway Station to provide more local customers with power in the future.

Read more about our activities in Zuid-Holland at jaarverslag.alliander.com/2012

Activities at Leiden Central Station

wind is blowing through our energy networks

Flevoland

customers
145,000

smart meters installed
15,459

Flevoland is famous for its wide open spaces – which are ideal for wind energy. To facilitate the implementation of the province's sustainability plans, Alliander constructed intelligent energy networks in 2012. Thanks to these networks, we are better able to monitor and control the energy flows. In 2012, we also connected a green gas installation to the network in Zeewolde. About 900 households are now powered with green gas from cattle manure.

Read more about our activities in Flevoland at jaarverslag.alliander.com/2012

Green gas from cattle manure

building a sustainable region

Gelderland

customers
911,000

smart meters installed
63,560

Alliander supports industrial activity in Gelderland. In 2012, we invested € 135.1 million in expanding and replacing the energy network. Thanks to these improvements, we can also provide energy for new-build developments in Ede on the Enka site, and also in Wageningen and Barneveld. Together with the provincial and municipal authorities, we also helped to advance sustainable initiatives. We studied the impact of biogas on the network in Klarenbeek, a solar park in Lochem and electricity-generating boilers in Apeldoorn.

Read more about our activities in Gelderland at jaarverslag.alliander.com/2012

Sustainable neighbourhood in Ede

energy in Friesland: being smart together

Friesland

customers
254,000

smart meters installed
7,144

The province of Friesland aims to promote energy saving and renewable energy generation. Through wind energy, for instance. Alliander stimulated this development in 2012, investing € 27.6 million in the energy network. In 2012, the construction of one of the first intelligent networks in the Netherlands got under way in Dokkum. In addition, 22 charging poles for electric cars were connected in the province.

Read more about our activities in Friesland at jaarverslag.alliander.com/2012

22 new charging poles in Friesland

new energy sources for our networks

Noord-Brabant

customers **417,000**

smart meters installed **12,837**

Demand for energy in Eindhoven is on the rise. This prompted Endinet to upgrade the network in Someren. We also carried out a study into the digitisation of the network at several locations and explored the opportunities for local generation. Due to the extensive animal farming in the region, biomass fermentation has good potential, as does solar energy and thermal heating. In addition, we devoted extra attention to the safety and reliability of our network in 2012.

Read more about our activities in Eindhoven at jaarverslag.alliander.com/2012

Endinet working in Eindhoven

corporate governance

Good entrepreneurship and good supervision (including reporting and accountability) are the twin pillars of corporate governance. Alliander attaches great importance to good corporate governance. We are aspiring for a transparent structure, which serves the interests of all stakeholders.

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risk management

Guaranteeing the energy supply in a large part of the Netherlands is of pivotal importance to society. It is therefore crucial to have an accurate picture of the risks to which Alliander is exposed. To this end, we try to identify all potential risks in good time and manage these wherever possible. We continuously seek to ascertain any risks that may occur in the field of safety, for example, operations and finance.

Risk management within Alliander

Our risk management is aimed at obtaining insight into the most important risks for Alliander. Based on this insight, we can take measures to achieve our objectives and take advantage of opportunities. This offers no absolute guarantee against the actual occurrence of risks, but ensures that the management of risks forms an explicit part of managing the organisation. We accept the risks belonging to entrepreneurship, depending on their impact and probability of occurrence.

We see risk management as an integral part of effective management. Our definition of a risk is “the probability of the occurrence of an event that would have a negative impact on the achievement of the objectives, the corporate values or the existence of our company”.

Risk 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 regions. In our operations we want to reduce the safety and environmental risks to a minimum. In line with this objective, we have established a risk appetite framework for our activities by determining the acceptable risk profile.

This risk appetite is derived from the company’s ability to absorb risks and is periodically determined. The business units apply the following rules in relation to the risk appetite.

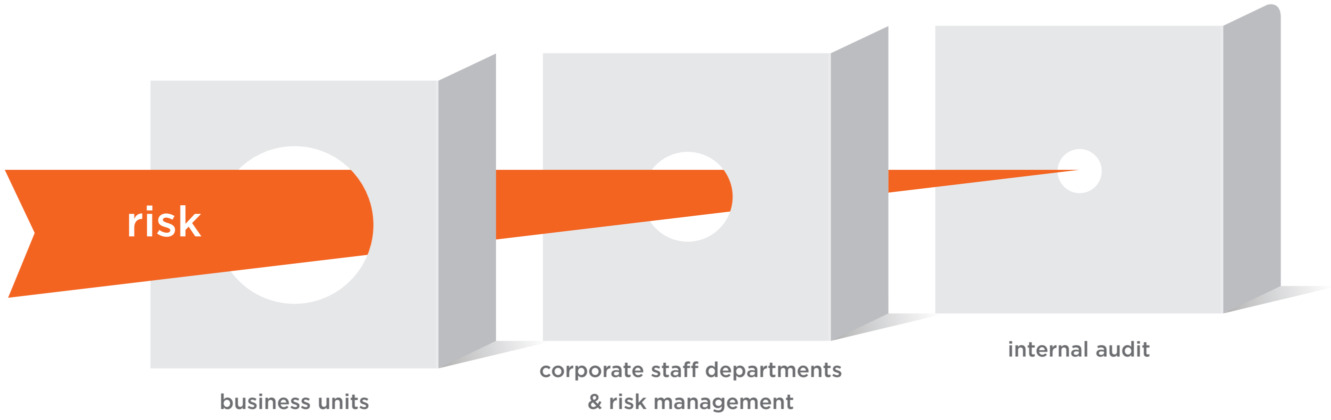
- Compliance with laws and regulations.
- Adherence to the internal procedures and the Alliander Code of Conduct.
- Inclusion of an explicit account of the risk assessment process during the planning phase of the business and year plan.
- Periodic review of all relevant risks and measures, including those relating to programmes and projects.

The Management Board obtains advice on whether activities are compatible with the established risk appetite.

The risk management and internal control framework

Duties and responsibilities

Within Alliander we distinguish three lines of defence. Our business units constitute the first line of defence. As such, they carry primary responsibility for the management of risks within the normal conduct of our operations. They carry out actions aimed at identifying and controlling risks on a daily basis and report on the status of the identified risks on a quarterly basis as part of the planning and control cycle. At the end of the year, the management of the business unit accounts for their risk management actions to the Board of Management by providing an “in control statement”.



The business units are supported by the second line. This consists of the corporate staff departments that specialise in specific areas of risk, such as the Safety, Environment and Quality Department, the Legal Affairs Department and the Compliance Department for issues relating to the Dutch Electricity Act 1998 and the Gas Act.

The Risk Management Department also forms part of the second line of defence. The department is responsible for the development and implementation of the Alliander risk policy and framework. In addition, it supports the management in mapping out its risk management strategy and monitoring the identified risks.

Finally, the Internal Audit Department acts as the third line of defence by carrying out its audit plan and giving an independent opinion on the quality of the internal controls, including the risk management. Outside the organisation, the external auditor also fulfils an independent role in identifying and raising issues.

The Alliander-wide risk management process

With effect from 2012, our risk management system is based, alongside the COSO ERM Model, on ISO 31000. ISO 31000 sets out guidelines for our risk management principles and for a risk management framework. In addition, it provides guidelines for the risk management process for the identification, assessment and control of risks. We measure the application of risk management within Alliander according to these guidelines in order to conform to this internationally recognised standard.

The Alliander-wide risk management process offers a structure for the uniform management of risks and for the communication of risks in a manner that is recognisable to everyone.

In order to create the most comprehensive picture possible of the risks, we look at three different levels. At strategic level (are we doing the right things), at management level (are the right conditions in place) and at operational level (do we implement these things in the correct manner). In the past year, this method was embedded within the entire organisation. In various risk sessions the management teams of business units identified and/or reviewed the risks falling within their duties and responsibilities from the perspective of these three levels.

Risks have different degrees of urgency. We use impact and probability scenarios to rank the identified risks (risk portfolio), before determining how to control these risks. Risk monitoring is also an important part of sound risk management. We expect all our business units to evaluate their risk portfolio and make adjustments where necessary.

The Alliander Business Control Framework

The Business Control Framework (BCF) is an instrument for exercising internal control. Alliander's BCF consists of a coherent whole of internal controls. It aims to monitor the reliability of the financial reporting as well as to ensure compliance with reporting and tax laws and regulations.

In 2012 all reporting risks were identified for the most important business processes. On the basis of this assessment, a new internal control framework consisting of the key controls was defined. Periodic testing of these controls provides a reasonable degree of assurance that the financial reports contain no material inaccuracies. The existence and effectiveness of the entire set of key controls was tested in 2012. The management of the business units also reports on the effectiveness of these controls on a quarterly basis in the monthly reports. Ultimately, this makes an important contribution to the annual “In control statement”.

Financial risk management

The financial risks relating to the use of specific financial instruments are primarily managed by the Treasury Department. The Risk Management Department advises Treasury on the risk profile of counterparties, sectors and countries by monitoring market developments and providing risk scenario analyses. Treasury identifies, evaluates and mitigates financial risks. It acts in accordance with Alliander's Treasury Charter, which contains the policy applying to such risks as currency risk, interest rate risk, credit risk and liquidity risk. Operational credit risk, related to purchase and sale transactions, is monitored by various automated credit information systems.

Most important risks

The risks mentioned in this annual report are those which Alliander recognises can adversely affect the realisation of its objectives and activities. These concern risks that were reported in the quarterly risk reports in 2012. These 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 and immediacy.

Category of risk	Type of risk
Strategic	Regulatory changes
Strategic	Reputation risk
Financial	Credit risk
Financial	Currency risks
Financial	Interest rate risks
Financial	Liquidity and financing risks
Financial	Risks relating to US cross-border leases
Operational	Occurrence of large-scale incident (assets)
Operational	Assurance of stable IT landscape
Operational	Data management (data quality, integrity and security)

In addition to these risks, there are two themes that are of continuous importance for Alliander. In view of their wide-ranging nature, these risks cannot be assessed on the basis of a standard impact and probability scenario. The risk management in relation to these themes is mainly aimed at creating permanent awareness among all parties and persons involved.

The first theme concerns the energy transition which is currently changing the energy landscape. This raises uncertainties and confronts us with the question of what will be expected from us as a network manager in the future. There are no ready-made answers to this question. But we do know that the organisation of the network company will become more complex. Alliander is responding to the uncertainties surrounding this transition in various ways. Flexibility is crucial in this connection. In the past year, Alliander studied various future scenarios, which helped us to obtain better insight into the possible contours of the energy transition as well as its possible consequences for Alliander.

Compliance is a second theme. A conscious and well-informed approach to laws and regulations in a broad sense is crucial for the proper implementation of our role in society. It is inextricably linked with our operations and forms an integral part of our corporate governance. Among other things, we have a code of conduct for our employees and within the organisation a lot of attention is devoted to privacy legislation and the regulation of the network managers.

As part of the Alliander-wide risk management process, risks are periodically evaluated. In this way, new risks can be promptly identified and the development of existing risks monitored, as can the effectiveness of risk-mitigating measures. This annual report gives the status of the risks we reported in 2011, but do not recur in this report. We still recognise these risks, but the level of risk is lower and/or the controls are stronger.

Type of risk	Status
Electricity disruption minutes	The reliability of our electricity network is of great importance. Measures have been and continue to be taken to limit the outage duration.
Shortage of technical staff	Alliander has undertaken various initiatives, such as partnerships with educational institutions and renewed labour market strategies. Thanks to these initiatives, this risk was slightly moderated in the past year. Technical skills shortages in the labour market remain a real challenge, however, and will continue to require our attention in the medium term.

Strategic

We define strategic risks as potential developments that can affect the realisation of our strategic objectives, as described in the Profile section in this annual report. The most important strategic risks are explained below.

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 operating activities within Liander and Endinet. The regulations pertain to electricity and gas connections and transportation services and 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. It is important for us and our stakeholders to ensure that sufficient resources are available to make the investments needed in the infrastructure.

Risk control measures

The risk control measures include:

- Adapting Alliander's ambitions to the identified regulatory developments.
- Dialogue with the government by engaging in proactive consultation and by responding to regulatory developments relating to network management.
- Controlling the regulatory risks at three levels: scenario calculations, interpretation of these by knowledge experts and proactively contributing to the opinion-forming process.
- Assurance of data integrity and quality in the processes.

- Communication of our views on regulatory developments.
- Raising of internal 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 that are either within or beyond our control. Maintaining careful communications with stakeholders and our surroundings is important for us to ensure responsible business operations.

Risk control measures
The risk control measures include:
- In addition to a risk portfolio, the quarterly risk reports will - effective from this year - also include a reputation damage portfolio. This portfolio provides the Management Board and the Audit Committee of the Supervisory Board with insight into the management of the most important reputation risks at the time of reporting.
- Diligent application of our communication policy to all reputation management and monitoring activities, including the use of company spokespersons (to comment on interruptions and other events), brand management and stakeholder and issue management.
- Having and implementing a corporate governance policy and the correct application of codes of conduct and disclosure procedures.
- The existence of a crisis communication organisation.

Financial risks
We define financial risks as uncertainties that may affect the company's financing as well as its interest rate and 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 the financial statements.

The most important financial risks are explained below.

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 entire 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.

In view of the ongoing uncertainty and unrest in the financial markets, we continued applying our tightened measures for controlling our credit risks in 2012.
In connection with our Cross Border Lease contracts (see also the risks relating to US Cross Border Leases), the credit risk in relation to banks, investment institutions and instruments is proactively monitored. We suffered no significant credit losses in 2012.

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. Transactions 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 rate risk
Interest rate risk is the risk that changes in interest rates will have a negative effect on 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 ensuring that a minimum of 60% of our total interest-bearing debts have a fixed-rate and a maximum of 40% have a floating rate. We use interest rate instruments to manage our interest rate positions.

Liquidity and financing risks
Liquidity and financing risks are the risks 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 the 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 Chief Financial Officer. A clear policy, primarily aimed at mitigating risks, has been set up for the CBL contracts.

Operational

We define operational risks as risks relating to the effective and efficient use of operating assets and resources in 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, certain risks are mitigated by means of liability insurance and general insurance. The most important operational risks are explained below.

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

This is the risk of a large-scale incident having an impact on essential parts of Alliander and causing damage to our network infrastructure and other fixed assets, possibly leading to a serious interruption of the energy supply.

Risk control measures

The measures for preventing an incident include:

- Investments in the replacement of assets. In the past year, this received a lot of attention, so that considerable progress was made with the replacement of cast-iron and asbestos cement gas pipes.
- Taking account of interruption risks in the design of energy networks. The further minimisation of the number of nodal points can limit the scale of interruptions.

In the event that a large-scale incident occurs despite these precautions, the Alliander crisis organisation will be activated. The Alliander crisis plan describes the set-up of the crisis organisation and the upscaling phases in the event of a calamity. A crisis is a situation that arises as a result of a major incident and can have a potentially negative impact on both the organisation and its surroundings, products, service and reputation. Every crisis will have its own distinctive character and will occur unexpectedly.

Assurance of stable ICT landscape

In 2012 the IT risk reported in the annual report mainly concerned the possible non-availability or non-functioning of essential parts of the information and communication infrastructure due to an incident ('large-scale ICT incident'). Various measures were taken to control this risk. However, in the changing energy landscape, the dependence on IT is increasing. It is crucial for us to assure the stability of our IT landscape in order to manage our networks and guarantee reliable services for customers.

Risk control measures

For this reason, attention for continuity and contingency issues remained as great as ever in the past year. This took the form of contingency improvement plans, continuity provisions for our data centres and measures to improve the connectivity and interfaces in the chain of our systems.

Data management (data quality, integrity and security)
If data quality, integrity and security are insufficiently assured in the organisation, there is the risk that the quality of Alliander's core processes are put in jeopardy.

Risk control measures
Data management, and hence the improvement of data quality, integrity and security, continued to receive undiminished attention this year:
- In the past year various data cleansing actions were carried out as part of our data improvement plan.
- Alliander is one of the founders of the European Network for Cyber Security (ENCS).
- Liander received the 'Privacy audit proof' quality label for its processing of privacy-sensitive customer data from the smart meter.

Monitoring the risk management and internal control framework

Our risk management and internal control framework form part of Alliander's corporate governance structure. Within Alliander, several bodies are in place for risk governance purposes. These bodies, each of which has its own responsibility, assure the risk management procedures in the Alliander organisation.
- The Risk Management Committee advises the Management Board on implementing and complying with the risk management policy in relation to the corporate objectives. Its activities include assessing risk reports and the progress of actions 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 of Alliander. The CBL Committee regularly determines the CBL-related strip risk and monitors the credit risk on banks and investment institutions/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 business units with the fulfilment of their responsibilities concerning correct, timely and adequate external disclosures.
- The Management Board provides proactive guidance in its attitude and behaviour in respect of risk management and internal control. Its activities in this respect include:
  - every quarter the Alliander Risk Report is discussed by the Management Board. This report is drawn up by the Risk Management Department on the basis of information supplied by the business units;
  - the Management Board periodically evaluates the most important reported risks together with the risk owners;
  - based on the information thus obtained, the Management Board has insight into current risks and the manner in which these are controlled. If necessary, the Management Board will initiate the implementation of additional measures;
  - finally, the Management Board monitors the risk management and internal control framework and regularly assesses this against the expectations and developments at our most important stakeholders.
- The Supervisory Board supervises the design and effectiveness of the risk management and internal control framework. The quarterly risk reports are discussed in the Audit Committee, the plenary Supervisory Board receives a summary of this report. The Management Board provides an explanation of the risk report, the Audit Committee takes this risk report on board in its supervision. Twice a year the Audit Committee receives insight into the status and progress of risk management (assurance) initiatives in a broad sense. In addition, possible adjustments to the risk management policy are put to the Supervisory Board prior to their implementation.

statement by the management board

In Control Statement

As the Management Board, we are responsible for the design and operation of our risk management and internal control framework. We evaluated the design and operation of this framework in 2012, based in part on the business control information, the Internal Audit reports and the management letter from the external auditor.

The risk management and internal control 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 risk management and internal control framework 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 2012 and of the business during the 2012 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 in the Risk Management section.

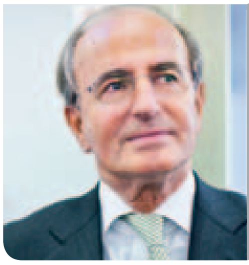
Arnhem, 15 February 2013

Management Board

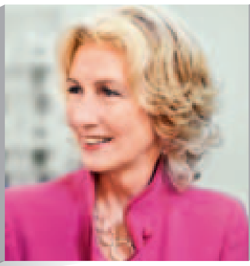
Peter Molengraaf, chairman
Mark van Lieshout, member

interview with the Supervisory Board

The primary duties of the Supervisory Board at Alliander are to supervise, advise and act as employer of the Management Board. How do members of the Supervisory Board fulfil these duties in daily practice? What challenges do they see for Alliander? Two members of the Supervisory Board, Ed d'Hondt and Ada van der Veer, discuss the Board's role as well as several important developments in 2012.



Ed d'Hondt



Ada van der Veer

A fresh outside perspective

"Trust is the basis for the cooperation with the Management Board," Ed d'Hondt (Chairman of the Supervisory Board) says at the outset. "The day-to-day management of Alliander is in their hands. That's a great responsibility." It is up to the members of the Supervisory Board to supervise the organisation, strategy, finances and risks. "We look critically at the market and the organisation's ambitions and advise the Management Board on these issues. In carrying out our role, we always try to find the right balance between involvement and detachment. We need knowledge of what's going on, but must also remain independent."

That independence has added value, agrees Ada van der Veer (Supervisory Board member and also member of the Audit Committee). "We bring a fresh outside perspective. All members of the Supervisory Board have a broad scope. To carry out proper scrutiny and give good advice, we draw on all our experience, including that gained at other organisations. Together with the members of the Management Board, we engage in a dialogue aimed at viewing proposed changes and decisions from multiple angles."

Organisation in transition

It is clear to the Supervisory Board that the energy market is undergoing major development. Alliander has an important role to play here. "The company is in the midst of a strategic repositioning. Formerly, the main focus was on managing the energy supply; now we have the added role of facilitating the energy transition," van der Veer explains. "Large-scale innovation, more extensive use of ICT and the increased funding requirement to finance the network digitisation process are important new components. The Supervisory Board looks critically at the effects of this transition on the organisation in terms of, for instance, competences, staff appraisals, investments and risks." Due to the energy transition, the organisation of the network company is becoming more complex. D'Hondt: "As we can only estimate the effects of the energy transition and cannot be 100% certain about the outcomes, the strategic frame of reference we use to plot our future path is becoming increasingly important. In these times of change, flexibility is crucial for an organisation. Alliander makes important choices on the basis of future scenarios. In 2012 we, as the Supervisory Board, spent a lot of time studying these scenarios."

Solid policy

In the past year, the Supervisory Board mainly assessed new plans on feasibility, potential benefits and financial capacity. "Take the roll-out of the smart meter, for instance. That operation demands a large investment every year. So there must be a clear funding strategy to back it up," says Van der Veer. The Supervisory Board keeps a close eye on business cases like these to monitor the results. "By learning lessons from these plans, we are constantly improving our control over large-scale projects, finances and risks. A solid financial policy is key to realising our ambitions. That's a big priority for Alliander."

Development of the organisation

In addition, the Supervisory Board looks closely at the organisation's ongoing development in such areas as cost awareness, but also employee safety and competences. So what is a major topical issue at the moment? The new Act regulating top salaries in the public and semi-public sector is a concern. Mr d'Hondt: "The introduction of this new law will lead to large salary differences compared to commercial organisations. What's more, in our sector the law only applies to unbundled energy companies. And there are yet other rules for partly state-owned companies. The result is an unbalanced situation. Which is a risk, particularly in view of the challenges facing Alliander. We must remain in a position to recruit and retain qualified people. Whether we can still choose the best candidate in the future is very much open to question."

Relationship with external stakeholders

The Supervisory Board is not the only party who exercises formal supervision over Alliander. The Office of Energy Regulation, which is part of the Netherlands Competition Authority (NMa), and the State Supervision of Mines (SSM) are responsible for the regulatory supervision of the energy market. And the network operators also attract a lot of political attention at national level, where the energy policy is developed. The Supervisory Board keeps a finger on the pulse of political developments in order to protect the company's interests as best it can.

Discussions are also regularly held with the major shareholders and the external auditor. "Our talks with the shareholders are about investments and Alliander's contribution to society in the regions," says d'Hondt. In 2012, the Audit Committee was closely involved in the tendering project for the auditor. "The external auditor is an important party for us, precisely because he plays a role throughout the whole organisation. The auditor is independent, just as we are."

Room for debate

Whether it is investments in technology, adjustments to the HR policy or the company's strategic positioning, the Supervisory Board assesses the impact and gives advice.
Van der Veer: "We pay close attention to ensure that the company's ambitions are in balance with its ability to change. And we create room for debate."

Personal interviews

In order to play an effective role, reliable information is essential to the Supervisory Board. "Fortunately, plenty of data are available from Alliander and there is always willingness to gather specific information for us," says Van der Veer. The various committees also cooperate intensively with Alliander. The Audit Committee, for instance, has extensive dealings with the Internal Audit Department. "And our working visits and personal talks with employees are also a valuable source of information about our corporate atmosphere and climate." Members of the management team regularly attend the Supervisory Board meetings to explain specific matters. D'Hondt: "The aim is twofold: they get a better understanding of what we think and why, while we hear what issues matter most to them." One important internal stakeholder consists of the employee representation bodies, Van der Veer observes in conclusion. "We consider it very important that the Central Works Council can speak openly with the Supervisory Board. The Management Board offers scope for this, which inspires trust."

report of the Supervisory Board

Alliander has a two-tier board structure, which means that management and supervision are separated. The Management Board is responsible for managing the company. The Supervisory Board supervises the general conduct of business and advises the Management Board.

Composition of the Supervisory Board

Early in the year under review, the Supervisory Board was deeply saddened and devastated by the loss of Mr G. Ybema, member and vice-chairman of the Supervisory Board. He died on 15 February 2012 of a serious illness at the age of 66. We look back with sincere gratitude at our cooperation with Mr Ybema and will remember him as a committed and driven member of our Board and, above all, as an extremely amiable person. The procedure for filling the vacancy that has arisen due to Mr Ybema's death has been started. It will be filled in line with the Supervisory Board profile.

Ms J.B. Irik and Mrs A.P.M. van der Veer-Vergeer resigned by rotation after the end of the General Meeting of Shareholders on 12 April 2012. At the same meeting, Ms Irik was reappointed for a final one-year term and Mrs van der Veer-Vergeer was reappointed for a term of four years.

None of the members of the Supervisory Board have more than five Supervisory Board memberships at Dutch listed companies, thus satisfying provision III.3.4 of the Dutch Corporate Governance Code (hereinafter "the Code"). Ahead of the entry into force of the Management and Supervision Act ("Wet Bestuur en Toezicht") on 1 January 2013, an inventory was carried out in 2012 to ascertain the number of positions held by members of the Supervisory Board at 'large corporate persons' in connection with the limitation of the permitted number of supervisory positions.

The composition of the Supervisory Board is always determined according to the profile, as posted on Alliander's corporate website. As well as 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 includes a diversity of knowledge, experience, backgrounds, gender and ages. The male-female ratio is 50:50, three men and three women. The ages vary from 54 to 69.

Ms van der Linde is not independent within the meaning of the Electricity Act 1998 and the Gas Act. All other members of the Supervisory Board are independent within the meaning of the Dutch Electricity Act 1998 and the Gas Act. This entails that none of these members have any direct or indirect connections with an organisational unit that produces, purchases or supplies electricity or gas. All members of the Supervisory Board also satisfy the independence requirements as included in the Code (best practice provisions III.2.1 and III.2.2.).

In accordance with the Code, members of the Supervisory Board are required to report every actual or potential conflict of interest. In 2012 there was one transaction where one member of the Supervisory Board had a material conflict of interest. Mr F.C.W. Briët reported a conflict of interest in connection with Alliander's proposed participation in Innax Group B.V., a company in which he holds a personal financial interest. Mr Briët did not take part in the deliberations about this transaction. The Supervisory Board declares that best practice provisions III.6.1 to III.6.3 of the Code were adhered to.

Meetings of the Supervisory Board

The Supervisory Board met on eight occasions in 2012. The full Management Board attended all but one of these meetings. Prior to each meeting, the Supervisory Board met without the attendance of the Management Board. Mr J. Reezigt, Director of General Affairs, and Ms M.M.A. de Bliek, Manager of the Corporate Secretariat, act as, respectively, secretary and deputy secretary of the Supervisory Board. The meetings are prepared in consultation with the chairman of the Supervisory Board. During the meetings the Supervisory Board discussed the achieved results and the plans for the coming periods, risk management, decisions requiring the approval of the Supervisory Board and all other relevant matters that were raised. Members of the management team were regularly invited to give presentations to the Supervisory Board.

Attendance of members of the Supervisory Board during meetings in 2012

	E.M. d'Hondt	J.C. van Winkelen	F.C.W. Briët	J.B. Irik	J.G. van der Linde	A.P.M. van der Veer-Vergeer
Supervisory Board	8/8	8/8	7/8	8/8	8/8	7/8
Audit Committee	n/a	8/8	n/a	n/a	7/8	7/8
Selection, Appointment and Remuneration Committee	3/3	n/a	3/3	3/3	n/a	n/a

n/a: not applicable

Alliander's financial results were dealt with at length during the discussion of the quarterly, interim and full-year results. The discussions of the full-year and interim results were conducted in the presence of the external auditor. Moreover, the Supervisory Board discussed and approved the 2013 year plan, while the business plan 2013-2017, including scenario analyses, also received attention.

During various meetings, the Supervisory Board was informed about the company's strategy, including Alliander's role in the energy transition and various growth scenarios.

In 2012 the Supervisory Board again devoted attention to the objectives for, and the reporting on, relevant aspects of social entrepreneurship. In this connection, Alliander's progress in the field of safety was also discussed.
The Supervisory Board noted with satisfaction that Alliander is investing a lot of time and effort in socially responsible entrepreneurship. This is visible in, among other things, the cooperation with the external auditor during the verification of the CSR aspects in this integrated annual report. In addition, CSR is one of the non-financial indicators for assessing the performance of the Management Board.

The Supervisory Board discussed and approved various matters relating to the funding of the company. These included the new bond issue of € 400 million in June and the repurchase of two outstanding bonds in October by means of a tender in combination with a new bond issue of € 400 million to finance the repurchase of the bonds and the settlement of interest rate derivatives.

In addition, we looked closely at the effect on Alliander's creditworthiness of the progress of the results, the balance sheet ratios and the financial position. The Supervisory Board notes with satisfaction that the credit ratings of Standard & Poor's and Moody's were maintained in 2012.

Moreover, the Supervisory Board discussed the internal risk management and control systems on the basis of the reports from the management, Internal Audit and the external auditor. These are well developed at Alliander and were improved compared to the previous year, particularly in connection with the ICT environment and the Business Control Framework. The Supervisory Board endorses the internal control framework as described in the Risk Management section of this report.

The Supervisory Board also discussed and granted its approval for the revised investment plan for smart meters in the amount of € 979 million. The Supervisory Board also supported Alliander's participation in the large-scale heating network of the municipality of Nijmegen and the plans for our new sustainable office and workplace complex in Duiven. The various options for making Alliander's own energy consumption more sustainable and reducing grid losses were also discussed several times.

All meetings except one took place at Alliander's head office in Arnhem. One meeting was held at the company's location in Haarlem, where the full Supervisory Board and Management Board visited Alliander's in-house technical training centre. On this occasion, they were informed about the various vocational training courses in gas and electrical engineering.

Other subjects discussed were: regulatory affairs, the consequences of the introduction of the mandatory supplier model from 1 April 2013, the performance of the members of Alliander's management team, the selection of suitable wireless telecom connections for smart networks, the evaluation of the acquisition of Endinet, the ICT policy within Alliander and the 'New Way of Working'.

Committees of the Supervisory Board

As noted in the Corporate Governance section, the Supervisory Board has two committees: the Audit Committee and the Selection, Appointment and Remuneration Committee. These two committees met separately in 2012. Their most important considerations and conclusions were shared with the full Supervisory Board.

The Audit Committee

After the death of Mr Ybema on 15 February 2012, the Audit Committee consisted of Mr van Winkelen (chairman), Mrs van der Veer-Vergeer and Ms van der Linde. The composition of the Audit Committee is in accordance with the provisions of the Code, with Mrs van der Veer-Vergeer acting as financial expert.

In 2012 the Audit Committee met on eight occasions. The CFO attended all meetings with one exception. In addition, the Internal Audit Director and the Corporate Control Manager were present at all meetings. The CEO attended two meetings, while the external auditor was present at seven meetings. In accordance with the Code, the members of the Audit Committee met once with the external auditor without the presence of the other regular participants in the Audit Committee meetings.

The Audit Committee mainly discussed and assessed all relevant financial matters that were put to the Supervisory Board. These included the financial statements and the annual report 2011, the proposal for profit appropriation 2011, the quarterly and interim figures 2012, as well as the year plan 2013 and the business plan 2013-2017. The committee also discussed and approved the audit year plans of both the Internal Audit Department and the external auditor. In addition, the Audit Committee approved the engagement of the external auditor for the 2012 annual audit and established the independence of the external auditor. Moreover, the reports of the Internal Audit Department and the external auditor were discussed, as was the external quality audit of the Internal Audit Department by the Institute of Internal Auditors Netherlands (IIA).

Furthermore, the Audit Committee extensively discussed the risk reports, Alliander's risk absorption capacity and the Risk Management section of this annual report. A description of the most important risks can be found in the Risk Management section.

The Audit Committee also discussed an update of the developments within the organisation regarding the level of assurance in Alliander's specific areas of risk. Special attention was devoted to the development of the cross-border lease positions. Other subjects that the committee dealt with were the tax position, the loans portfolio (where a realignment led to the partial repurchase and new issuance of bonds), Alliander's rating profile, the impact of new IRFS rules, the investment in the heating network in Nijmegen and the evaluation of the acquisition of Endinet in 2010.

The Audit Committee also gave extensive consideration to the development of Alliander's investment and operating costs in the short, medium and long term. In addition, the Audit Committee dealt at length with the selection process for the external auditor in the framework of the European tendering procedure for the annual audit services from the 2013 financial year. The outcome will be put to the General Meeting of Shareholders of 2013 for a decision.

In December the Audit Committee evaluated its own performance and effectiveness. The conclusion was that it had effectively performed the tasks entrusted to it. The committee believes that the contacts with the external auditor, the Internal Audit Director and the Management Board were conducted in a professional and constructive manner.

The Selection, Appointment and Remuneration Committee

The Selection, Appointment and Remuneration Committee consisted in 2012 of Messrs Briët (chairman) and d'Hondt and Ms Irik. All members of the Selection, Appointment and Remuneration Committee are independent. The composition of the committee is in accordance with the provisions of the Code. The Committee met on three occasions in 2012, partly in the presence of the CEO. All meetings were attended by the HRM Director.

The Selection, Appointment and Remuneration Committee advised the Supervisory Board on the degree of realisation of the short- and long-term objectives for the variable remuneration of the members of the Management Board for 2011. A proposal was also made to the Supervisory Board in relation to the objectives for the short-term variable remuneration for 2012 and for the long-term variable remuneration for the 2012-2014 period. In addition, the Selection, Appointment and Remuneration Committee prepared the Remuneration Report for 2011, which sets out the manner in which the remuneration policy was put into practice. The committee also conducted individual appraisal interviews with the members of the Management Board in connection with the assessment of the performance of the Management Board. The possible consequences for Alliander of the new Act regulating top salaries in the public and semi-public sector (Wet Normering Topinkomens), which took effect in 2013, came up for discussion several times. In addition, the committee dealt with the nominations for the reappointment of Ms Irik and Mrs van der Veer-Vergeer in 2012 as members of the Supervisory Board and also reflected on the succession planning within the Management Board.

Finally, by way of preparation for the General Meeting of Shareholders, the committee held consultations with the Committee of Shareholders about the variable remuneration of the Management Board and the Remuneration Report 2011.

The committee made no use of external remuneration advisers in the financial year.

Main points of the remuneration policy

The remuneration policy is aimed at enabling Alliander to recruit and retain qualified and expert directors. The remuneration policy is characterised by a clear structure with a good balance between fixed and variable remuneration components and gives due attention to the interests of all stakeholders of the company. The remuneration structure must help the company to attain both its short-term and long-term objectives. The total remuneration of the Management Board comprises the following components: an annual gross base salary, a short-term variable remuneration, a long-term variable remuneration, a pension provision and other remuneration elements. An explanation of the remuneration policy and the manner in which this was put into practice in 2012 is included in the Remuneration Report in this annual report.

Annual assessment of performance

In December 2012 the Supervisory Board held a meeting, not attended by the Management Board, to discuss its own performance, as well as that of its individual members and committees, and also to discuss the performance of the Management Board as a collective body and that of its individual members.

Contrary to the procedure in the past two years, where the assessment was prepared by means of extensive written questionnaires about the Supervisory Board's overall performance as well as that of its individual members, this year's assessment was limited to an open exchange of views. This change of procedure was based on the shared feeling within the Supervisory Board that a more pragmatic approach was justified, particularly in the light of the relatively low added value of the previous method.

The subjects raised during the exchange of views included the following: the development of the supervision in the energy sector, the Supervisory Board's relationship with the Management Board, the Supervisory Board's access to information, the relationship to the shareholders and, linked to this, Alliander's strategy, as well as the performance of the Audit Committee and the Selection, Appointment and Remuneration Committee.

In general, it was found without any sense of complacency or self-satisfaction that the Supervisory Board performs its role effectively and in good mutual harmony. The same applies to both of the Board's committees. It was, however, noted that the Audit Committee gets considerably more work on its plate than the Selection, Appointment and Remuneration Committee. This, combined with the materiality of the subjects, gives rise to a certain tension in deciding what should be put on the agenda of the plenary meeting of the Supervisory Board.

The conclusion was that in future an even sharper assessment must be made as to whether certain themes should be dealt with directly in the plenary meeting.

In view of the importance of the financial portfolio, the pace and scale of the developments, and the impact of these developments on Alliander's financial position, the financial specialism within the Board is becoming increasingly important. The educational and/or training activities for members of the Supervisory Board could place more emphasis on this issue. Contributions from "outside people" could be helpful in this respect.
This, incidentally, not only concerns the financial theme, but also such subjects as cyber security, crisis and risk management and the impact of strategic developments in the energy field.

Another aspect that received special attention in the evaluation was the relationship between internal and external supervision. The basis on which the external supervisor, the NMa (Office of Energy Regulation), carries out its supervisory duties is not always clear. The character of the network companies is undergoing a rapid development from predominantly technology-driven to more information-driven. This makes the supervision of the organisation more complicated. A clear division of roles between internal and external supervision would be helpful.

The Supervisory Board's relationship with the Management Board is pleasant and good, based as it is on trust and complementarity. This does not take away from the fact that the Supervisory Board always takes a critical view of the management of the company as a whole. In a rapidly changing environment and during a period of major investment programmes, the Board devoted particular attention to the company's ability to change and its cost awareness. In recent years, the company has already undergone substantial growth in a market characterised by strong dynamics. The desired size of the Management Board was discussed in this light.

The Supervisory Board notes with satisfaction that the relationship with the major shareholders is good and balanced. The Supervisory Board also maintains a constructive relationship with the Central Works Council. There are concerns about the implementation of the Act on top salaries in the public and semi-public sector. The 'money grabbing context' in which the debate over high incomes is constantly placed obstructs a serious approach to the issue. After all, this is not just about top incomes, but about the entire salary structure within the company. The fear is that Alliander may face a loss of quality if the private sector is able to pay substantially more for equivalent positions. In addition, the transitional system leads to unequal and sometimes absurd situations.

It is crucial to prevent a situation in the future where public and semi-public companies are forced to make do with the professionals and directors who are left over after the private sector has had its pick thanks to its ability to offer salaries that greatly outweigh any non-material rewards (such as the satisfaction of serving the public good) associated with working in the public sector.
The difference in remuneration between commercial energy companies, partly state-owned companies and companies that are in the hands of provinces and municipalities is both striking and incomprehensible. The same applies to the inequality in remuneration between unbundled network companies and those that have not yet been unbundled from the commercial energy company.
This makes the supervision as entrusted to Supervisory Boards a virtually impossible task.

Contacts with shareholders

The Supervisory Board is keen to promote an active dialogue with shareholders and stays abreast of the views of its shareholders, particularly those with large holdings. The Supervisory Board realises the importance of understanding the key issues for the provinces and municipalities holding shares in Alliander and of ensuring sufficient support for the company's strategy and policy. Contacts with shareholders must primarily take place in the shareholder meetings. Great importance is therefore attached to a high participation rate of shareholders in these meetings. The full Supervisory Board attended the annual General Meeting of Shareholders on 12 April 2012.
In addition, the Supervisory Board is of the opinion that various forms of consultation with shareholders outside the context of formal shareholder meetings can also be of importance, both to the company and to the shareholders. Alliander has outlined a policy for bilateral contacts between the company and its shareholders.
For an overview of the contacts with shareholders in 2012, reference is made to the Shareholders and Lenders section of this annual report.

Contacts with the Central Works Council

The Supervisory Board attaches great value to a good relationship with the Central Works Council. This enables the Supervisory Board to keep in touch with the issues and concerns that matter to Alliander's employees.
The Supervisory Board attended two meetings, in changing compositions, between the Management Board and the Central Works Council. In addition, an informal meeting took place in October 2012 between the Supervisory Board and the Central Works Council, in which various relevant developments were discussed.

Financial statements, dividend proposal and discharge

The Supervisory Board hereby submits the financial statements compiled by the Management Board for the financial year 2012 to the General Meeting of Shareholders for adoption. The financial statements were audited by the external auditor, PricewaterhouseCoopers Accountants N.V.. The unqualified opinion is included in this annual report.

The Audit Committee discussed the financial statements at length with the external auditor in the presence of the CFO. In addition, the full Supervisory Board discussed the financial statements for 2012 with the full Management Board in the presence of the external auditor. Based on these discussions, the Supervisory Board is of the opinion that the financial statements for 2012 of Alliander N.V. meet all correctness and transparency requirements and that these form a good basis for the Supervisory Board to account for its supervision during the year. In conformity with Article 2:101, Section 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 2012, including the proposed profit appropriation;
- adopt the dividend proposal for 2012 of € 74.4 million;
- discharge the members of the Management Board for their management in 2011;
- discharge the members of the Supervisory Board for their supervision in 2012.

Word of appreciation

Lastly, we would like to express our particular gratitude to the Management Board and all employees of Alliander for their hard work and commitment in 2012.

Arnhem, 15 February 2013

Supervisory Board

E.M. d'Hondt, chairman
J.C. van Winkelen, vice-chairman
F.C.W. Briët
Ms J.B. Irik
Ms J.G. van der Linde
Mrs A.P.M. van der Veer-Vergeer

Members of the Supervisory Board

Name	Date of appointment	End of current term	Committees
E.M. d'Hondt (chairman)	30 June 2009	2013 (may be reappointed)	Member of Selection, Appointment and Remuneration Committee
J.C. van Winkelen (vice-chairman)	30 June 2009, 12 May 2011 [1]	2015 (may be reappointed)	Chairman of Audit Committee
F.C.W. Briët	30 June 2009, 12 May 2011 [1]	2015 (may be reappointed)	Chairman of Selection, Appointment and Remuneration Committee
Ms J.B. Irik [2]	8 June 2001, 27 May 2004 [1], 22 April 2008 [1], 12 April 2012 [1]	2013 (not to be reappointed)	Member of Selection, Appointment and Remuneration Committee
Ms J.G. van der Linde	29 October 2009	2013 (may be reappointed)	Member of Audit Committee
Mrs A.P.M. van der Veer-Vergeer	30 June 2009, 12 May 2012 [1]	2016 (may be reappointed)	Member of Audit Committee

1 Reappointed.
2 Already member of Supervisory Board at n.v. Nuon (currently named Alliander N.V.).

members of the supervisory board

Ed d'Hondt

Jos van Winkelen

Franswillem Briët

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:

Member of Supervisory Board of Brink Groep B.V., Member of Supervisory Board of De Goudse Verzekeringen N.V., Member of Supervisory Board of BMC Group B.V., Member of Supervisory Board of the Policy 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

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.

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:

Chairman of Supervisory Board of Coöperatieve 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.

Bea Irik

Coby van der Linde

Ada van der Veer

Ms J.B. Irik (1956)

Dutch, first appointment: 8 June 2001
Current term ends in: 2013
Alliander Committees: Member of Selection, Appointment and Remuneration Committee
Profession/Chief position:
Independent adviser and project manager at Irik Advies Consultancy
Previous relevant positions:
Councillor (Utilities) at Municipality of Amsterdam
Relevant ancillary positions:
Supervisory Board Chairman of Stichting Centram

Ms 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 Rotterdam Climate Initiative, Member of International Advisory Board of KAPSARC

Mrs A.P.M. van der Veer-Vergeer (1959)

Dutch, first appointment: 30 June 2009
Current term ends in: 2016
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 Divisions, Member of Executive Board of Achmea Bank Holding N.V., 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

corporate governance

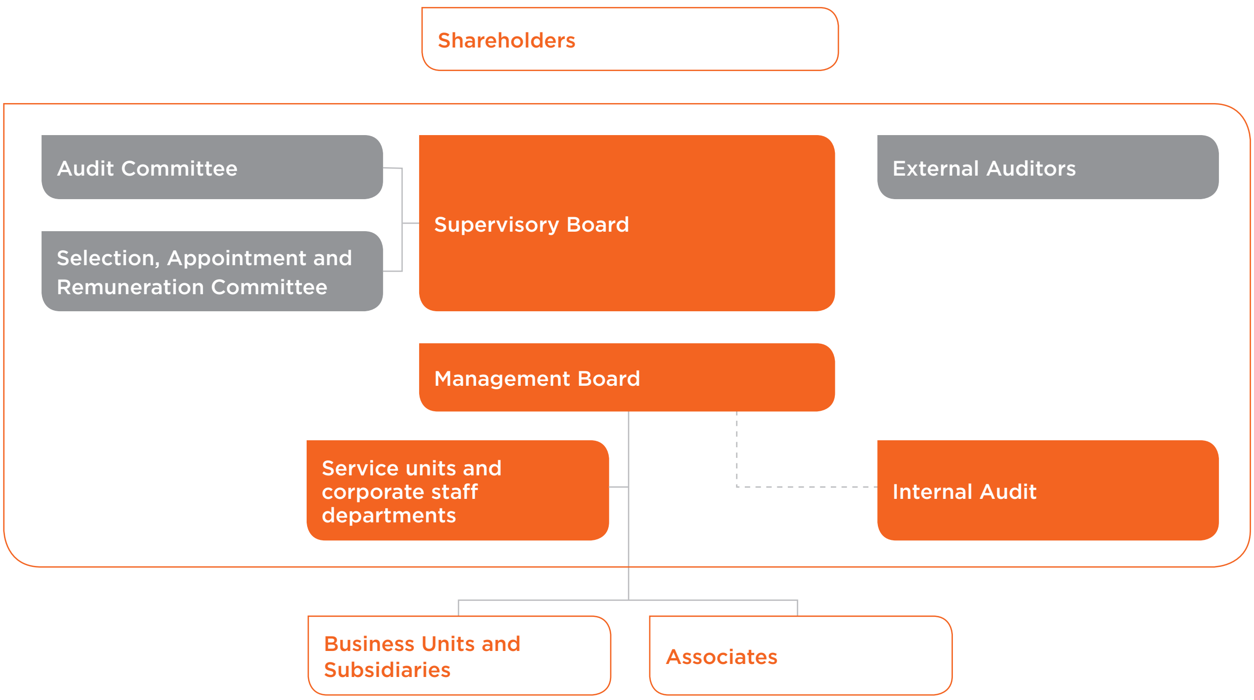
Alliander attaches great importance to good governance, independent supervision and adequate accountability. This is why we have opted voluntarily to apply the Dutch Corporate Governance Code[1] (hereinafter: the Code).

Corporate governance structure

The governance structure is based on Book 2 of the Dutch Civil Code, the company's Articles of Association and various internal charters, codes and arrangements.

The most important aspects of Alliander's corporate governance are outlined below. More information and the most important governance-related documents can be found at alliander.com under 'Corporate Governance'.

The governance structure of Alliander is as follows:



Management Board

The Management Board is tasked with the day-to-day management and is responsible for, among other things, the strategy, the determination and realisation of the objectives, the achievement of the results, and the social aspects of entrepreneurship relevant to Alliander. In addition, the Management Board is responsible for the company's compliance with all laws and regulations, the management of the risks associated with the business activities and the financing of the company. The Management Board is accountable for these aspects to the Supervisory Board and the General Meeting of Shareholders. The Management Board fulfils its tasks with a view to promoting the interests and activities of Alliander, while weighing up the relevant interests of the parties involved in the company. Alongside the statutory requirements and the provisions covering these aspects in the Articles of Association, the Management Board is required to adhere to the Charter of the Management Board. This Charter contains a clear description of the division of tasks between the individual members of the Management Board. Every change in this division of tasks is subject to the approval of the Supervisory Board. Without prejudice to the responsibility of each member of the Management Board for the tasks assigned to him or her, the entire Board of Management carries a collective responsibility.

1 We refer here to the Corporate Governance Code as updated by the Monitoring Committee Corporate Governance, the 'Frijns Committee', applicable from 1 January 2009. The full text of this Code can be found at commissiecorporategovernance.nl

In 2012 the Management Board consisted of two members. Further information about the members of the Management Board can be found in the 'Management Board' section. The members of the Management Board are appointed by the Supervisory Board. The Supervisory Board informs the General Meeting of Shareholders of the proposed appointment of a member of the Management Board.

Supervisory Board

The Supervisory Board is responsible for supervising the policy of the Management Board and Alliander's operations in general, including the realisation of the objectives, the strategy and the risks associated with the business activities, the design and operation of the internal risk management and control systems, the financial reporting process and the compliance with applicable laws and regulations. In addition, the Supervisory Board acts as the advisory body of the Management Board and as the employer of the Management Board.

The Supervisory Board is collectively responsible for fulfilling its task. The Supervisory Board carries out its role with a view to promoting the interests of Alliander, taking account of the interests of everyone involved in the company as well as all social aspects of entrepreneurship that are relevant to Alliander. In addition to the statutory provisions and Articles of Association, the Supervisory Board must also adhere to the Charter of the Supervisory Board.

In 2012 the Supervisory Board consisted of seven members, including one vacancy since mid-February 2012. The current composition is described in the section entitled 'Members of the Supervisory Board'. The members of the Supervisory Board are appointed by the General Meeting of Shareholders upon the nomination of the Supervisory Board. The General Meeting of Shareholders and the Central Works Council have an enhanced right of recommendation in respect of nominations for one third of the members of the Supervisory Board.

The Supervisory Board can appoint standing and/or ad hoc committees from among its members to perform tasks that are defined by the Supervisory Board. The Supervisory Board has two standing committees: an Audit Committee and a Selection, Appointment and Remuneration Committee. These committees prepare the Supervisory Board's decision-making in relation to the subjects belonging to their area of responsibility. A report of each committee meeting is made in a meeting of the Supervisory Board. These reports serve as the basis for the decision-making by the whole Board. Each committee has its own Charter which must be observed by the members of the Supervisory Board sitting on the committee.

The Audit Committee has a (preparatory) supervisory role in relation to the integrity and quality of the internal and external financial reports of Alliander and the operation of the internal risk management and control systems. This committee also advises the whole Supervisory Board about the financing policy and the financing of Alliander as well as about the management of the risks relating to information and communication technology. In addition, the Audit Committee also maintains and monitors the relationship with the external auditors.

The Selection, Appointment and Remuneration Committee is responsible for, among other things, the preparation of the selection and (re) appointment of members of the Supervisory Board and the Management Board. This committee also advises the Supervisory Board about the remuneration policy to be pursued for the members of the Management Board and the remuneration of the individual members. In addition, this committee prepares the remuneration report.

More detailed information on the composition and the activities of the Supervisory Board and its committees can be found in the Report of the Supervisory Board elsewhere in this report.

General Meeting of Shareholders

The General Meeting of Shareholders is held within four months after the end of the financial year. Other shareholder meetings can be held at the request of the Management Board or the Supervisory Board. One or more shareholders who solely or jointly represent at least ten per cent of the issued capital can also convene a shareholder meeting.

During the annual General Meeting of Shareholders, decisions are taken about matters such as the adoption of the financial statements, the adoption of the dividend, the discharge of the members of the Management Board and the Supervisory Board, and any (re) appointment of members of the Supervisory Board. The agenda for the General Meeting of Shareholders is determined by the Management Board and the Supervisory Board. Shareholders who solely or jointly represent one per cent of the issued capital can submit a request for the inclusion of additional items on the agenda for these meetings. In accordance with Alliander's Articles of Association, such a request will be granted on condition that it is submitted in writing at least 60 days before the meeting and the company has no compelling reasons for rejecting the request.

Every shareholder has the right to attend the General Meeting of Shareholders, to speak at the meeting and to exercise his voting rights in person or by written 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 of Alliander require otherwise.

External auditors

The external auditors are entrusted with auditing the financial statements [1] of Alliander and subsidiaries. As part of the general annual audit, the external auditor draws up the auditors' report and the management letter and issues the opinion with the financial statements of Alliander.

During the General Meeting of Shareholders of 10 May 2010, PricewaterhouseCoopers Accountants N.V. was reappointed as the external auditor up to and including the 2012 financial year. In 2012 Alliander initiated a European tendering procedure for the annual audit services from the 2013 financial year. After consultation with the management, the Audit Committee determined the selection criteria and the short list. Next, drawing on the advice of both the Audit Committee and the Management Board, the Supervisory Board will make the final decision for the nomination to the General Meeting of Shareholders. The Supervisory Board's nomination for the (re) appointment of the external auditor will be put to the General Meeting of Shareholders for a decision on 27 March 2013.

The Audit Committee attaches great value to the independent position of the external auditors. In order to guarantee the independence of the external auditors, Alliander has capped the remuneration for other services by the external auditor at a maximum of 25% of the total remuneration. This condition was met in 2012. A detailed overview of the remuneration paid to the accountancy firm PricewaterhouseCoopers Accountants N.V. and the other PricewaterhouseCoopers business units in 2012 can be found in the notes to the consolidated financial statements. The partner responsible within the external auditors can audit the financial statements of Alliander for a maximum of seven years.

The external auditors attend the meetings of the Audit Committee. The external auditors are also present at the meeting of the Supervisory Board where the external auditors' report on the annual audit is discussed and where the financial statements are also signed. In addition, they attend the meeting of the Supervisory Board in which the interim figures are discussed. Finally, the external auditors attend the General Meeting of Shareholders where the decision is made on the adoption of the financial statements. At this meeting, the external auditors can be asked questions about their audit work and their statement that the financial statements are a fair presentation of the company's financial position.

Internal Audit

Internal Audit at Alliander is an independent, objective function that provides additional assurance to the Management Board and the management concerning the control, effectiveness, efficiency and compliance of the operations. Internal Audit systematically evaluates the management, risk management and control 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 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 focuses on the most important business processes and risks. The year plan must be adopted by the Management Board and the Audit Committee. Twice a year Internal Audit reports via an in control report on how the audit findings have been followed up. This report is also put 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 the Audit Committee meetings.

Internal Audit undergoes an independent quality assessment once every four years. In 2012 the quality assessment by the Institute of Internal Auditors Netherlands (IIA) confirmed that the internal system of quality control measures satisfies the generally accepted professional standards in the Netherlands, as laid down by the professional organisations IIA, NIVRA and NOREA.

Compliance with Code in 2012

Provisions not applying to Alliander

Alliander N.V. is a public limited liability company under Dutch law that is entirely subject to the statutory two-tier rules for large companies (articles 2:158 to 2:164 of the Dutch Civil Code). The Alliander shares are held directly or indirectly by Dutch provinces and municipalities. The Alliander shares are not listed on the stock exchange. In addition, the issuance of depositary receipts is not permitted and Alliander has no financing preference shares.

1 The financial statements comprise the consolidated and the company financial statements.

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 1V.4.3 (institutional investors).

Departures from 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 motivation
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.2.3: In determining the level and structure of the remuneration of management board members, the supervisory board shall take into account, among other things, the results, the share price performance and non-financial indicators relevant to the long-term objectives of the company, with due regard for the risks to which variable remuneration may expose the enterprise.	The shares of Alliander are not listed on the stock exchange. For this reason, no share price is available and this cannot be taken into consideration in the Supervisory Board's assessment.
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 policy is that a member of the Management Board is entitled to a minimum of one year's salary based on the severance arrangement as contained in the employment contract. Under certain conditions, this one-off payment is also paid out if a member of the Management Board hands in his notice and cannot be reasonably required to continue the contract, as in the case of a change of control or an irreconcilable difference of opinion on company policy. The Supervisory Board considers it important that in such situations one annual salary represents the contractually agreed conditions of employment.
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 arrangement agreed, any contractual conditions applying in respect of a change of control and any other elements of remuneration, pension arrangement and applicable performance criteria promised to the director.	Under the obligatory rules for large companies, Alliander's Management Board members are appointed by the Supervisory Board and not by the General Meeting of Shareholders. The Supervisory Board notifies the General Meeting of Shareholders of the proposed appointment. The salary components of Management Board members' employment contracts are transparently accounted for and published in the Remuneration Report.

III – Supervisory Board

Code	Departure and motivation
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, being 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.

IV – Shareholders/General Meeting of Shareholders

Code	Departure and motivation
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 more than 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 provisions 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 six 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 email. 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-on-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 best practice provision. 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' section and is deemed to be incorporated and repeated in this statement.

members of the Management Board

Peter Molengraaf, MBA

chairman and Chief Executive Officer (CEO)

Career

Peter Molengraaf (1965) has been chairman of the Management Board and Chief Executive Officer (CEO) of Alliander since 30 June 2009. From 2005 to 2009 he held various management positions at Nuon, lastly as chairman of the management board of the network company. Prior to 2005, he was active in various positions at Shell, including Manager of the European Customer Service Centre, Cross-Business IT Manager and Commercial Director at Shell Nederland Verkoopmaatschappij.

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

Supervisory Board memberships/ ancillary positions:

- Member of Supervisory Board of Vopak Nederland B.V.
- Member of Supervisory Board of N.V. DNV KEMA
- Member of Supervisory Board of Energie Data Services Nederland B.V. (EDSN)
- Board member of NEDU (Netherlands Energy Data Exchange)
- Board member of the employer's association for Energy, Cable & Telecom and Waste & Environment Businesses (WENb)
- Member of the Members' Council of Netbeheer Nederland (Association of Energy Network Operators in the Netherlands)

Mark van Lieshout

member and Chief Financial Officer (CFO)

Career

Mark van Lieshout (1963) has been a member of the Management Board and Chief Financial Officer (CFO) of Alliander since 1 January 2010. From 2008 to 2010 he 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 CFO 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 and the International Directors Programme (IDP) of INSEAD, in Fontainebleau, France. Mark van Lieshout is a Dutch national.

Supervisory Board memberships/ancillary positions:

- Member of the Supervisory Board of Canisius-Wilhelmina Hospital

remuneration report

This report explains the remuneration policy for the Management Board of Alliander and sets out the remuneration details for its members in 2012. It also reports on the remuneration of the members of the Supervisory Board.

The report ends with an outlook for 2013. The notes to the consolidated financial statements provide a further specification of the remuneration of the members of the Management Board and Supervisory Board.

The Supervisory Board draws up the remuneration policy for the members of the Management Board of Alliander on the advice of the Selection, Appointment and Remuneration Committee. The General Meeting of Shareholders of Alliander subsequently adopts the remuneration policy. Within the set remuneration policy, the Supervisory Board, acting on the advice of the Selection, Appointment and Remuneration Committee, adopts the remuneration of the individual members of the Management Board. The remuneration of the Management Board for 2012 is based on the remuneration policy adopted by the General Meeting of Shareholders in 2004 and adjusted by the General Meeting of Shareholders in 2006.

The remuneration policy and the remuneration report of Alliander are in accordance with the Dutch Corporate Governance Code. Any departures from the Code are explained.

Remuneration policy

Alliander's remuneration policy is transparent and is characterised by a clear structure with a good balance between fixed and variable remuneration components as well as attention for the interests of all stakeholders of the company, including customers, employees, shareholders and society. The most important objective of the remuneration policy for the Management Board is to enable Alliander to recruit and retain qualified and expert directors. In addition, the remuneration policy must support both the short- and long-term objectives of the company. The policy aspires to be market-consistent by offering remuneration levels that are in line with the levels of remuneration at comparable companies. Two separate reference groups were defined for this purpose. One reference group (I) comprises public sector companies whose core task is to manage the Dutch energy grids, [1] the other reference group (II) consists of companies with comparable levels of revenue and complexity. [2]
The composition of the reference groups is periodically evaluated by the Selection, Appointment and Remuneration Committee to ensure that they remain a reliable basis for comparison. The composition of the reference groups was not adjusted in 2012.

Remuneration components

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

a. annual gross base salary
b. short-term variable remuneration
c. long-term variable remuneration
d. pension benefits
e. social security charges and other benefits.

a. Annual gross base salary

Management Board members receive an annual gross base salary commensurate with the specific responsibilities, experience and expertise of each member of the Management Board.

b. Short-term variable remuneration

The short-term variable remuneration (one year) is aimed at achieving objectives within the current year. The maximum payable short-term variable remuneration is 30% of the annual gross base salary.

c. Long-term variable remuneration

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

Determination of the objectives for the short- and long-term variable remuneration

Each year the objectives and the accompanying weighting for the variable remuneration are defined by the Selection, Appointment and Remuneration Committee in consultation with the members of the Management Board and are adopted by the Supervisory Board. The specific objectives are determined annually in a scorecard and must be challenging, measurable and controllable. The set criteria for the short- and long-term variable remuneration are derived from the most important objectives used to direct the company. The short-term objectives are linked to the performance indicators as defined in the year plan and

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

included in Alliander's corporate dashboard. The long-term objectives are related to the long-term objectives as described in the long-term business plan. In the case of some objectives, the scores are compared with those of other network operators in the Netherlands.

Progress is monitored during the year. After the closing of the financial year, the extent to which the objectives have been achieved is evaluated by the Selection, Appointment and Remuneration Committee and the outcomes are subsequently adopted by the full Supervisory Board. If less than the agreed minimum level is achieved for an objective on the scorecard, no variable remuneration whatsoever is paid out for that objective. If the agreed maximum level for an objective on the scorecard is exceeded, the score will be set at the maximum agreed for that objective. Both the short- and the long-term variable remuneration of the Management Board members will never exceed 100% of the maximum percentage of 30% of the annual gross base salary.

In exceptional circumstances the Supervisory Board has the discretionary powers to adjust the variable remuneration if, in its opinion, the normal application of the policy would produce unfair or unintended results. The Supervisory Board also has the power to claw back any variable remuneration paid on the basis of incorrect financial or other information.

Internal Audit verifies the extent to which the objectives on the scorecard have been achieved before the level of the variable remuneration is adopted. In addition, the extent to which the defined objectives have been achieved is partly determined on the basis of the annual audit by the external auditors. The variable remuneration is paid after the formal adoption of the financial statements by the General Meeting of Shareholders.

d. Pension benefits

The members of the Management Board participate in the pension scheme of Stichting Pensioenfonds ABP as adopted in the collective labour agreement for network companies and applicable to all employees of Alliander. 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 accrued on the annual gross base salary, and members of the Management Board pay an individual contribution to participate in the scheme.

e. Social security charges and other benefits

In addition to the social security charges that are normally paid by the company, Management Board members are entitled to an employer's contribution towards the premium for the group health insurance plan, premiums for the personal benefits budget, an expense allowance and the use of a company car. In addition, the company has arranged accident insurance, as well as director's liability insurance for the 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 outside the company in that the Supervisory Board has to approve any supervisory board memberships at listed or other companies, while significant ancillary positions must be reported in writing to the chairman of the Supervisory Board. Any remuneration received for ancillary positions performed pursuant to membership of Alliander's Management Board accrues wholly to the company. Any remuneration for ancillary positions that are not performed pursuant to membership of Alliander's Management Board accrues to the Management Board member, who is also liable for any resulting tax consequences.

Employment contracts and severance arrangement

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 is important in such a situation for one year's salary to reflect the contractually agreed conditions.

Implementation of remuneration policy in 2012

a. Annual gross base salary

The Alliander employees covered by the collective labour agreement for network companies received a general salary increase of 1.5% with effect from 1 September 2012, while the base salary of members of the Management Board also rose by 1.5% on the same date.

In 2012 Mr Molengraaf's base salary amounted to € 225,500 (including an 8% holiday allowance), while Mr Van Lieshout's base salary for the same period amounted to € 212,500 (including an 8% holiday allowance).

b. Short-term variable remuneration

The objectives set for 2012 were a combination of financial objectives, customer-related objectives and objectives relating to corporate social responsibility. Compared to the short-term variable remuneration for 2011, the objective 'Number of substations fully equipped with SAS sensors' was replaced with the objective 'Progress on the 25 most important Asset Management Plan projects'. This is in accordance with the change in Alliander's corporate dashboard and gives more priority to the completion of the 25 most important projects from the Asset Management Plan instead of to a single individual project.

Objectives for short-term variable remuneration in 2012

Financial (40% weighting)

- net income after interest and tax (NIAT) (20%)
- net operating expenditure (OPEX) (10%)
- progress on 25 most important Asset Management Plan projects (10%)

Customers (30% weighting)

- customer satisfaction levels in the consumer market (10%)
- customer satisfaction levels in the business market (10%)
- current insight into potential energy savings (10%)

Corporate social responsibility (30% weighting)

- employees at a disadvantage in the labour market (10%)
- employee survey (10%)
- women in management positions (10%)

Based on the extent to which the objectives were achieved, the short-term variable remuneration for Messrs Molengraaf and Van Lieshout in 2012 came out at 81% of the maximum of 30% of their annual gross base salary.

c. Long-term variable remuneration

The objectives for 2010-2012 are based on financial and non-financial performance objectives and were the same as for 2009-2011.

Objectives for long-term variable remuneration

- return on invested capital (RIOC) (40% weighting)
- frequency of accidents (LTIF) (30% weighting)
- outage duration of electricity compared to the national average (30% weighting)

Based on the extent to which these objectives were achieved, the long-term variable remuneration for 2010-2012 for Messrs Molengraaf and Van Lieshout came out at 100% of the annual gross base salary [1].

d. Pension benefits

Pension costs relate to payments of standard pension contributions, which are based on the annual gross pensionable salary. As contractually agreed, variable remuneration is not pensionable. The pension contributions paid in the year under review for Messrs Molengraaf and Van Lieshout were, respectively, € 39,300 and € 36,900.

e. Social security charges and other benefits

In 2012 the total amount of social security charges, the employer's contribution towards the premium for the health insurance plan, premiums for the personal benefits budget, and the expense allowance amounted to € 50,200 for Mr Molengraaf and € 56,900 for Mr Van Lieshout. The crisis levy applied with effect from 2012 is included in both amounts [2].

An overview of the remuneration awarded to the members of the Management Board for 2012 can be found in the notes to the consolidated financial statements.

1 In the total score of 100%, the score of the actual achievement of the objective 'Outage duration of electricity compared to the national average' was estimated at 99% on the basis of the most up-to-date information. This score was determined on the basis of the KEMA Report entitled 'Reliability of Electricity Grids in the Netherlands in 2012' to be published in March 2013 by Netbeheer Nederland. The score on this objective and the definite total score will be adjusted downwards by the Supervisory Board – in conformity with the applicable computation method – if appropriate in view of the outcomes of the report.

2 On 18 June 2012 the 2013 Budget Agreement (Details of Tax Measures) Act ('Wet uitwerking fiscale maatregelen Begrotingsakkoord 2013') took effect. This Act stipulates that a number of tax laws will be amended with effect from 1 January 2013. One of the amendments entails that employers are required to pay a one-off crisis levy in 2013 of 16% over the salary from current employment that they paid to employees in 2012 in so far as that salary exceeded € 150,000.

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 remunerations were adopted by the General Meeting of Shareholders in 2011. On this occasion, it was determined that the remunerations will be annually adjusted to the wage developments on the grounds of the collective labour agreement for network companies. On this basis, the remunerations were raised by 1.5% with effect from 1 September 2012. The remunerations are not dependent on the company's results. The members of the Supervisory Board are also entitled to an allowance for travel and accommodation expenses. Alliander does not provide any personal loans, guarantees and so forth to the members of its Supervisory Board.

The following gross annual remunerations were applicable to the members of the Supervisory Board and of the separate committees:

	Chairman	Members
(x € 1)	(until 1 September 2012)[1]	
Supervisory Board	27,500	22,500
Audit Committee	7,500	5,000
Selection, Appointment and Remuneration Committee	7,500	5,000

1 The gross remunerations were raised with effect from 1 September 2012 by 1.5% on the grounds of the collective labour agreement for network companies.

An overview of the total remunerations awarded to the members of the Supervisory Board for 2012 can be found in the notes to the consolidated financial statements.

Outlook for 2013

On 13 November 2012 the Upper House unanimously adopted the proposed 'Act on regulating top salaries in the public and semi-public sector' (Wet Normering Topinkomens / WNT). The Act took effect on 1 January 2013.

The WNT imposes a cap on the remunerations of top executives, including Management Board and Supervisory Board members, in the public and semi-public sector and contains rules about the disclosure of the paid remunerations. The remuneration may not exceed a maximum remuneration limit based on 130% of a minister's gross salary. This amounted to a remuneration of € 228,599 for 2013, which includes the base salary, taxable expense allowance and employer's pension contribution per calendar year for full-time employment. In addition to the maximum income, the Act sets the maximum severance pay at one year's salary with a maximum of € 75,000 gross, while also prohibiting bonuses, profit-sharing schemes and other forms of variable remuneration.

On 6 December 2011 the Lower House adopted a transitional arrangement. Arrangements that already existed on 6 December 2011 will continue to be respected for a four-year period after 1 January 2013. This will be followed by a three-year phasing-out period. Profit-sharing and bonus payment arrangements predating 6 December 2011 will fall within the transitional arrangement for four years. New appointments and reappointments after 1 January 2013 fall directly within the scope of the WNT.

The WNT also imposes a cap on the remuneration of the members and chairmen of the supervisory boards falling within the scope of the WNT at 5% and 7.5%, respectively, of the statutory maximum remuneration applicable to the organisation in question. In addition, all organisations to which the WNT is applicable are required to publish the following information on an annual basis:

- the remuneration of every top executive (together with the executive's name), irrespective of the size of the remuneration;
- the remuneration of every employee (together with the employee's position) whose remuneration exceeds the maximum applicable to top executives.

The Supervisory Board is concerned about the possible consequences of the WNT for the remuneration of top executives of the network operators and, hence, the consequences for the members of the Management Board of Alliander. The Supervisory Board is deliberating on the consequences of the WNT for the remuneration system and the remuneration policy to be pursued for the members of the Management Board of Alliander. In 2013 further consultation about this issue will take place with the shareholders in the customary manner.

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Consolidated financial statements

Consolidated balance sheet

€ million	Note	2012		2011	
Assets					
Non-current assets					
Property, plant and equipment	3	5,821		5,575	
Intangible assets	4	320		320	
Investments in associates and joint ventures	5	28		54	
Available-for-sale financial assets	6	314		279	
Derivatives	8	11		-	
Other financial assets	7	46		38	
Deferred tax assets	17	335		346	
			6,875		**6,612**
Current assets					
Inventories	9	36		28	
Trade and other receivables	10	316		277	
Derivatives	8	5		-	
Tax assets		7		-	
Other financial assets	7	75		295	
Cash and cash equivalents	11	100		106	
			539		**706**
Total assets			**7,414**		**7,318**
Equity & liabilities					
Equity	12				
Share capital		684		684	
Share premium		671		671	
Subordinated perpetual bond		494		494	
Hedge reserve		-2		-5	
Revaluation reserve		28		-	
Other reserves		1,104		984	
Profit after tax		224		251	
Total equity			**3,203**		**3,079**
Liabilities					
Non-current liabilities					
Interest-bearing debt	13	1,891		1,422	
Derivatives	8	73		120	
Finance lease liabilities	19	131		133	
Deferred income	14	1,530		1,505	
Provisions for employee benefits	15	59		55	
Other provisions	16	74		29	
			3,758		**3,264**
Short-term liabilities					
Trade and other payables	18	88		93	
Tax liabilities		78		59	
Interest-bearing debt	13	5		509	
Derivatives	8	-		49	
Provisions for employee benefits	15	63		58	
Accruals		219		207	
			453		**975**
Total liabilities			**4,211**		**4,239**
Total equity and liabilities			**7,414**		**7,318**

Consolidated income statement

€ million	Note	2012		2011	
Revenue	21	1,674		1,586	
Other Income	22	98		109	
Total income			**1,772**		**1,695**
Operating expenses					
Purchase costs and costs of subcontracted work	23	-449		-450	
Employee benefit expenses	24	-433		-385	
External personnel expenses	24	-121		-109	
Other operating expenses	25	-219		-193	
Total purchase costs, costs of subcontracted work and operating expenses		**-1,222**		**-1,137**	
Depreciation and impairment of property, plant and equipment	26	-337		-312	
Less: Own work capitalised		181		152	
Total operating expenses			**-1,378**		**-1,297**
Operating profit (EBIT)			**394**		**398**
Finance income	27		64		29
Finance expense	28		-209		-205
Result from associates and joint ventures after tax	5		-15		-5
Profit before tax			**234**		**217**
Tax	29		-10		34
Profit after tax			**224**		**251**

The profit after tax for 2012 is entirely attributable to the shareholders of Alliander N.V..

The comprehensive income was as follows:

Consolidated statement of comprehensive income

€ million	2012	2011
Profit after tax	**224**	**251**
Other elements of comprehensive income		
Revaluation of available-for-sale assets	28	7
Movement in fair value cash flow hedges	3	-22
Termination hedge relation	-	29
Comprehensive income	**255**	**265**

Consolidated cash flow statement

€ million	Note	2012	2012	2011[1]	2011[1]
Cash flow from operating activities	30				
Profit after tax			**224**		**251**
Adjustments for:					
- Finance income and expense			145		176
- Tax			10		-34
- Profit after tax from associates and joint ventures			15		5
- Depreciation and impairment less amortisation			278		255
Changes in working capital:					
- Inventories		-8		-1	
- Trade and other receivables		-46		2	
- Trade and other payables and accruals		31		-73	
Total changes in working capital			**-23**		**-72**
Changes in deferred tax, provisions, derivatives and other			-14		72
Cash flow from operations			**635**		**653**
Net interest paid		-100		-119	
Net interest received		2		15	
Dividends received from associates and joint ventures		15		1	
Corporate income tax paid (received)		-7		7	
Total			**-90**		**-96**
Cash flow from operating activities			**545**		**557**
Cash flow from investing activities	30				
Investments in property, plant and equipment		-578		-475	
Construction contributions received		85		81	
Investments in financial assets (associates and joint ventures)		-5		-4	
Cash flow from investing activities			**-498**		**-398**
Cash flow from financing activities	30				
Redemption current interest-bearing liabilities and current part of long-term debt		-504		-23	
Long-term debt issued		798		23	
Early redemption long-term debt		-329		-259	
Premium paid in connection with the early redemption of bonds		-44		-30	
Settlements interest rate swaps		-57		-	
Change in current deposits		220		-170	
Interest coupon subordinated perpetual bond		-24		-15	
Dividend paid		-113		-80	
Cash flow from financing activities			**-53**		**-554**
Net cash flow			**-6**		**-395**
Cash and cash equivalents as at 1 January			106		501
Net cash flow			-6		-395
Cash and cash equivalents as at 31 December			**100**		**106**

[1] The figures for 2011 have been restated in connection with a change in presentation to include the premium paid in connection with the early redemption of bonds in the cash flow from financing activities.

Consolidated statement of changes in equity

€ million	Share capital	Share premium	Sub-ordinated perpetual bond	Hedge reserve	Revalua-tion reserve	Other reserves	Profit for the year	Total
	Equity attributable to shareholders and other providers of equity							
Equity as at 1 January 2011	**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**
Movement in fair value cash flow hedges	-	-	-	3	-	-	-	3
Revaluation of available-for-sale financial assets	-	-	-	-	28	-	-	28
Profit after tax for 2012	-	-	-	-	-	-	224	224
Comprehensive income for 2012	**-**	**-**	**-**	**3**	**28**	**-**	**224**	**255**
Interest coupon subordinated perpetual bond after tax	-	-	-	-	-	-18	-	-18
Dividend for 2011	-	-	-	-	-	-	-113	-113
Profit appropriation for 2011	-	-	-	-	-	138	-138	-
Equity as at 31 December 2012	**684**	**671**	**494**	**-2**	**28**	**1,104**	**224**	**3,203**

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 the 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 as 'Alliander', 'the Alliander group', 'the group' or similar expressions) are the operation of electricity and gas networks covering roughly one third of the Netherlands and the provision of related services.

The 2012 financial statements were signed by the members of the Management Board and the members of the Supervisory Board on 15 February 2013. The Supervisory Board will submit the financial statements for adoption by the General Meeting of Shareholders on 27 March 2013.

Change in accounting policies concerning the presentation of the cash flow statement

Alliander has decided, commencing with effect from 2012, to account for the premium paid in connection with the early redemption of bonds and the settlement of interest rate swaps in the cash flow from financing activities. Up to year-end 2011, transactions of this kind were included in the cash flow from operating activities.

In Alliander's view, the revised presentation is better suited to the nature of these transactions and the reason for them, namely as part of the company's financing activities. The revised presentation provides a more accurate view of the cash flow from operating activities for users of the financial statements.
The change has no effect overall on the net cash flow or the profit after tax and therefore has no impact on equity either. Nor does it involve any reclassification between items in the income statement or the balance sheet.

With respect to the figures for 2011, the change means that the cash flow from operating activities increases by € 30 million and there is an increase in the negative cash flow from financing activities. If the change had not been implemented in 2012, the cash flow from operating activities would have amounted to €444 million and the negative cash flow from financing activities €48 million. The comparative figures for 2011 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 2012, 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 carrying amounts and presentation of the reported assets and liabilities, the off-balance-sheet rights and obligations and the reported income and expenditure 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 2012

The IASB and the IFRIC have issued new and/or amended standards and interpretations which are applicable to Alliander with effect from the 2012 financial year. The standards and interpretations below have been endorsed by the European Union.

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.

Expected changes in accounting policies

In addition to the above-mentioned amended standard, the IASB and the IFRIC have issued new and/or amended standards and/or interpretations in the period up to the end of 2012 which will be applicable to Alliander with effect from the 2013 financial year or subsequent financial years. These standards and interpretations can only be applied if adopted by the European Union.

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. This amendment, which is applicable with effect from 1 January 2013, is not expected to have any impact on Alliander.

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. The amendment, which is effective from 1 January 2013, does not have any material 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. The changes will be applicable with effect from 1 January 2014. They are not expected to have any impact on Alliander.

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. IRFS 10 uses a single control model that applies to all entities, including special-purpose entities. The new approach does not have any impact on the Alliander consolidation.

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 arrangements: joint operations and joint ventures. A joint operation is when the partnership is concerned with joint interests in assets, liabilities, income or expense. A joint venture exists when the arrangement confers a right to the net assets of the arrangement. As a consequence the equity method has to be used. Under IFRS 11, proportionate consolidation of joint ventures is no longer permitted. Application of IFRS 11 will not affect Alliander.

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 standard is not expected to have any impact on Alliander.

Amendment of IFRS 10, 11 and 12 with respect to transitional arrangements. The transitional arrangements have been simplified as regards restatement of comparative information relating to periods previous to the preceding period. The disclosure requirements relating to non-consolidated entities with respect to comparative information for periods prior to first-time adoption of IFRS 12 have also been dropped.

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 on Alliander still has to be determined but the standard is not expected to have any effect.

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. This amendment does not affect Alliander.

The IASB 'Annual Improvements Process 2009-2011' has also resulted in corrections and minor amendments to a number of IFRS standards, which are effective as from 1 January 2013. Since these changes do not have a material impact on Alliander, they are not itemised here.

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 non-controlling interests (see also the accounting policies for goodwill).

For each business combination, it is determined whether any non-controlling interest in the acquiree is measured at fair value or at the proportionate share of the non-controlling 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 non-controlling interests and profit after tax attributable to non-controlling interests.

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

Intercompany transactions, intercompany receivables and payables 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.

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.

Page 169 of this annual report contains a list of the principal subsidiaries and associates.

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

In 2012, 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. 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.

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. Translation differences on financial assets and liabilities that are measured at fair value are accounted for in the income statement along with the fair value gains and losses.

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.

Under IFRS, 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.

In both 2011 and 2012, there were changes in Alliander's cash-generating units. In 2011, the metering services for small-scale users of gas and electricity were designated a separate cash-generating unit. The change in 2012 has to do with the fact that the the small-scale users of electricity metering service and the the small-scale users of gas metering service became subject to regulation with effect from 1 January 2011 and 1 January 2012, respectively. As a consequence, the small-scale users of electricity and gas metering service cash-generating unit was added to the already regulated electricity and gas networks.

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 comprise the results for the entire financial year up to the time of discontinuation. 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 from 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 more rigorous safety standards, Alliander has prepared a strategic asset 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, in 2011 the useful lives of the electricity and gas networks were 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) in 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 consideration paid on transfer of ownership exceeds the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiaries or associates acquired. Goodwill recognised on the acquisition of subsidiaries is classified under intangible assets. Goodwill recognised on the acquisition of associates is included in the cost of the investment concerned. If the amount paid on transfer 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 both on initial recognition and throughout the period for which an 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 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 distribution 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 an 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 payable arising from the agreement is recognised in the balance sheet. The resulting gains or losses are recognised in the income statement. The pensions of by far 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 include, 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. Actuarial gains and losses are recognised in the income statement.

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

Other long-term employee benefits

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

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

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

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

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

Revenue recognition
Revenue is recognised at the fair value of the transaction in the period in which the supply of goods and services takes place. In addition, as 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 distribution 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-scale user electricity metering services and, with effect from 2012, the income from small-scale user gas metering services, as these activities have been regulated since those dates. 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;
- Deregulated revenue such as from large-user 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 of construction contributions, and 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 distribution capacity and distribution 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 consist 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 and premium paid in connection with the early redemption of corporate bonds issued by the company etc.;
- 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 same applies to the finance income and expense and the corporate income tax recognised in the income statement. These items are replaced in the cash flow from operating activities by the interest paid/received and the tax paid/received, respectively. 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 that used in the balance sheet.

Note 1 Business combinations

General

There were no acquisitions or takeovers in 2011 or in 2012.

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 OostBrabant distribution area. 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 external revenue of Liander and Endinet mainly comprises income from energy transport and connection services. In the Other segment, external revenue mainly derives 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.

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	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Revenue														
External revenue	1,558	1,433	109	114	105	148	-	-	**1,772**	**1,695**	-	-	1,772	1,695
Internal revenue	12	11	-	-	313	284	-325	-295	**-**	**-**	-	-	-	-
Total revenue	**1,570**	**1,444**	**109**	**114**	**418**	**432**	**-325**	**-295**	**1,772**	**1,695**	**-**	**-**	**1,772**	**1,695**
Operating expenses														
Purchase costs and costs of subcontracted work	666	573	12	15	129	154	-70	-67	**737**	**675**	-288	-225	449	450
Operating expenses	580	553	44	41	346	321	-255	-228	**715**	**687**	58	-	773	687
Depreciation and impairments	244	231	36	35	57	46	-	-	**337**	**312**	-	-	337	312
Own work capitalised	-312	-281	-5	-3	-109	-93	-	-	**-426**	**-377**	245	225	-181	-152
Total operating expenses	**1,178**	**1,076**	**87**	**88**	**423**	**428**	**-325**	**-295**	**1,363**	**1,297**	**15**	**-**	**1,378**	**1,297**
Operating profit	**392**	**368**	**22**	**26**	**-5**	**4**	**-**	**-**	**409**	**398**	**-15**	**-**	**394**	**398**
Net finance income/ expenses	-74	-67	-10	-10	-11	-24	-	-	**-95**	**-101**	-50	-75	-145	-176
Share in results of associates and joint ventures after tax	1	-	-	-	-4	7	-	-	**-3**	**7**	-12	-12	-15	-5
Tax	-80	-75	-3	-4	-	3	-	-	**-83**	**-76**	73	110	-10	34
Profit after tax	**239**	**226**	**9**	**12**	**-20**	**-10**	**-**	**-**	**228**	**228**	**-4**	**23**	**224**	**251**
Segment assets and liabilities														
Total assets	6,148	5,840	528	534	2,617	3,799	-1,879	-2,855	**7,414**	**7,318**	-	-	7,414	7,318
Non-consolidated investments in associates	-	-	-	-	27	41	-	-	**27**	**41**	-	-	27	41
Non-consolidated investments in joint ventures	1	1	-	-	-	12	-	-	**1**	**13**	-	-	1	13
Liabilities (non-current and current)	4,232	3,054	258	211	2,179	2,280	-2,458	-1,306	**4,211**	**4,239**	-	-	4,211	4,239
Other segment items														
Investments in property, plant and equipment	496	399	28	24	54	52	-	-	**578**	**475**	-	-	578	475
Number of permanent staff at end of year	3,415	3,265	268	249	2,124	2,031	-	-	**5,807**	**5,545**	-	-	5,807	5,545

The profit after tax for 2012, like that for 2011, is fully attributable to the shareholders of Alliander N.V..

Reclassification to reported and fair value movements 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 € 288 million (2011:€ 225 million) included in purchase costs and costs of raw materials and consumables is eliminated. The incidental items are not included in the periodical management reports either but are reported separately. For the purposes of reconciliation with the external reporting (column headed reported), the incidental items should be included. Disclosures relating to the incidental items can be found on page 48 of the annual 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 associ-ates and joint ventures	
€ million	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
The Netherlands	1,743	1,655	5,794	5,548	320	320	28	53
Rest of the world	29	40	27	27	-	-	-	1
Total	**1,772**	**1,695**	**5,821**	**5,575**	**320**	**320**	**28**	**54**

The rest of the world category 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 equipment	Assets under construction	Total
As at 1 January 2011					
Historical cost	226	8,434	739	189	**9,588**
Accumulated depreciation and impairments	-103	-3,567	-516	-	**-4,186**
Carrying amount as at 1 January 2011	**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**
Movements 2012					
Investments	-	14	82	482	**578**
Divestments	-	-14	-13	-	**-27**
Depreciation	-6	-221	-83	-	**-310**
Transfers and other movements	4	408	72	-479	**5**
Total	**-2**	**187**	**58**	**3**	**246**
As at 31 December 2012					
Historical cost	249	8,780	1,271	206	**10,506**
Accumulated depreciation and impairments	-118	-3,794	-773	-	**-4,685**
Carrying amount as at 31 December 2012	**131**	**4,986**	**498**	**206**	**5,821**

Investment
Capital expenditure on property, plant and equipment totalled € 578 million (2011: € 475 million). The increase is mainly accounted for by investments intended to reduce outage time, the roll-out of smart meters and general introduction of more intelligent systems in the networks.

New consolidations
There were no acquisitions in 2012.

Divestments
Divestment in 2012 related to decommissioning of network assets and other plant and equipment and sales of buildings and land.

Impairment

No impairment losses were recognised on the property, plant and equipment in 2012. 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 2012, Alliander applied a discount rate before tax of 7.9% for 2013 and 6.6% for later years (2011: 6.6%), reflecting the periods for which the regulated activities are regulated, and 8.1% (2011: 8.1%) 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 2012 was approximately € 1.4 billion (2011: €1.4 billion). At the end of 2012, a total of $ 4.1 billion (2011: $ 4.0 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 2012, 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 $ 326 million (year-end 2011: $ 450 million). To cover the equity part of the strip risk, amounting to $ 268 million at the end of 2012 (2011: $ 322 million [1]), Alliander has provided the investors involved with security in the form of letters of credit for an amount of $ 74 million (2011:$ 103 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 2012 compared with the 2011 position is largely due to interest rate movements.

An amount of $ 58 million of the maximum strip risk relates to two cross-border lease contracts that are recognised on the face of the balance sheet. The remainder, amounting to $ 268 million, relates to the cross-border lease contracts accounted for as off-balance-sheet commitments.

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 2012 was € 109 million (2011: € 113 million).

1 In connection with a change in the definition of the equity strip risk in 2012, the comparative figures for 2011 have been restated for presentation purposes. The strip risk as such has not changed.

Note 4 Intangible assets

Intangible assets

€ million	Goodwill	Other intangible assets	Total
As at 1 January 2011			
Historical cost	500	7	**507**
Accumulated amortisation and impairments	-187	-	**-187**
Carrying amount as at 1 January 2011	**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**
Movements 2012	-	-	-
As at 31 December 2012			
Historical cost	500	7	**507**
Accumulated amortisation and impairments	-187	-	**-187**
Carrying amount as at 31 December 2012	**313**	**7**	**320**

In 2012 and 2011, the amount of the investments and the amortisation charge were very small. The other intangible assets are amortised over a period of 20 years.

Goodwill allocation by segment

€ million	**2012**	**2011**
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 2012, 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 2013 and 6.6% for later years (2011: 6.6%), 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 five 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 impairment losses in 2012.

Note 5 Investments in associates and interests in joint ventures

Investments in associates and joint ventures

	Associates		Joint ventures		Total	
€ million	2012	2011	2012	2011	2012	2011
Carrying amount as at 1 January	42	38	12	19	54	57
Movements						
Investments	5	4	-	-	**5**	**4**
Share in results	-2	6	-1	1	**-3**	**7**
Dividends received	-15	-1	-	-	**-15**	**-1**
Impairment	-1	-4	-11	-8	**-12**	**-12**
Currency translation differences and other movements	-1	-1	-	-	**-1**	**-1**
Total	**-14**	**4**	**-12**	**-7**	**-26**	**-3**
Carrying amount as at 31 December	28	42	-	12	28	54

The impairment loss of €1 million on the investments in associates in 2012 relates to Plugwise Holding B.V.. The impairment loss of €11 million under joint ventures relates to Ziut B.V.. These losses result from revisions of the projected medium-term results, applying a pre-tax nominal WACC ranging from 8.1% to 13.3%. The method used is identical to that described in note [4]. In view of the actual control exercised, Ziut B.V. is classified as a joint venture. The share in the results in 2012 is based on provisional figures, with adjustments in respect of the preceding year based on the finalised figures. Dividends amounting to € 15 million (2011: € 1 million) were received in 2012, all from the investment in N.V. KEMA.

Financial information of investments in associates

€ million	% Interest held	Assets	Liabilities	Revenue	Profit/ loss	Carrying amount
2012						
N.V. KEMA, Netherlands	25%	n/a	n/a	n/a	n/a	22
Other						6
Carrying amount as at 31 December 2012						**28**
2011						
N.V. KEMA, Netherlands	25%	233	82	258	5	39
Other						3
Carrying amount as at 31 December 2011						**42**

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

In the case of a number of associates, Alliander's interest is less than 20%. For details, see the list of principal subsidiaries, associates and joint ventures on page 169. In view of the degree of control in relation to the associates concerned, however, it has been determined that there is significant influence and the investments have been included in the investments in associates.

Financial information of investments in joint ventures

€ million	% Interest held	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Expenses	Carrying amount
2012								
Ziut B.V., Netherlands	53%	n/a	n/a	n/a	n/a	n/a	n/a	-
Reddyn B.V.	50%	n/a	n/a	n/a	n/a	n/a	n/a	-
Carrying amount as at 31 December 2012								**-**
2011								
Ziut B.V., Netherlands	53%	5	63	4	38	132	128	12
Reddyn B.V.	50%	-	8	-	7	6	5	-
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 2011	**261**
Movements 2011	
Currency translation differences and other movements	18
Total	**18**
Carrying amount as at 31 December 2011	**279**
Movements 2012	
Currency translation differences and other movements	35
Total	**35**
Carrying amount as at 31 December 2012	**314**

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). As at year-end 2012, the fair value amounted to € 66 million negative (2011: € 120 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 2012 of € 177 million (2011: € 149 million) and serves both to cover related lease obligations as well as the aforementioned CDS. The carrying amount of the related lease obligations was € 131 million at year-end 2012 (2011: € 133 million). The carrying amount of the investments not related to cross-border lease contracts as at year-end 2012 was € 137 million (2011: € 130 million).

Note 7 Other financial assets (including current portion)

Other financial assets

€ million	Loans, receivables and other
Carrying amount as at 1 January 2011	**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**
Effective interest rate 2012	1%
Movements 2012	
New receivable	8
Loans granted	1,400
Loans and interest repaid	-1,620
Total	**-212**
Carrying amount as at 31 December 2012	**121**
Non-current portion of other financial assets	46
Current portion of other financial assets	75

At the end of 2012, the carrying amount of the other financial assets comprised receivables, loans and capitalised costs denominated in euros (2011: ditto).

The loans granted and repaid in 2011 and 2012 were in the form of short-term deposits.

Note 8 Derivatives

Derivatives

	Current assets		Non-current assets		Current liabilities		Non-current liabilities	
€ million	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Trading derivatives								
Interest instruments	-	-	-	-	-	39	-	-
Other derivatives	-	-	11	-	-	1	73	120
Total	**-**	**-**	**11**	**-**	**-**	**40**	**73**	**120**
Cash flow hedges								
Foreign exchange contracts	5	-	-	-	-	9	-	-
Total	**5**	**-**	**-**	**-**	**-**	**9**	**-**	**-**
Carrying amount as at 31 December	**5**	**-**	**11**	**-**	**-**	**49**	**73**	**120**

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 year-end 2012 amounted to € 66 million negative (2011: € 120 million negative). Also accounted for in the derivatives held for trading purposes included in the non-current assets and non-current liabilities are the put and call options relating to KEMA, totalling € 11 million and € 7 million, respectively. For further details of these options, reference is made to note [27].

Note 9 Inventories

Inventories

€ million	2012	2011
Raw materials and consumables	29	24
Finished goods	7	4
Carrying amount as at 31 December	**36**	**28**

In 2012 impairments on inventories occurred totalling an amount of € 1 million (2011: nil).

Note 10 Trade and other receivables

Trade and other receivables

€ million	2012		2011	
Trade receivables	199		164	
Impairments of trade receivables	-20		-21	
Trade receivables net		**179**		**143**
Other receivables		31		27
Accrued income and prepayments		106		107
Carrying amount as at 31 December		**316**		**277**

At the end of 2012, impairment of trade receivables totalled € 20 million (2011: € 21 million). The impairment loss on trade receivables recognised in the income statement in 2012 amounted to € 3 million (2011: € 4 million). For further information, see the credit risk section of note [34].

Note 11 Cash and cash equivalents

Cash and cash equivalents		
€ million	**2012**	**2011**
Cash held at banks	-3	3
Deposits	103	103
Carrying amount as at 31 December	**100**	**106**

The effective interest rate on cash and cash equivalents ranged from 0.01% to 1.44% (2011: 0.05% to 1.94%). Cash and cash equivalents are held almost entirely in euros.

In 2012, there were no amounts of cash and deposits which were not at the unrestricted disposal of Alliander (2011: 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 2012, 136,794,964 shares were in issue (2011: 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, the Management Board will pay coupon interest for the period from 24 June of the preceding year to 23 June of the year under review, inclusive, to the holders of the subordinated perpetual bond loan, chargeable to other reserves. This represents an amount of € 24 million.

In this connection, coupon interest totalling € 24 million (€ 18 million after tax) was paid to the holders of the subordinated perpetual bond loan and charged to other reserves on 25 June 2012. This coupon payment related to the period 24 June 2011 to 23 June 2012.

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. In April 2012, a portion (€ 500 million) of Alliander's EMTN portfolio became due for redemption. 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. Based on a revised view of the borrowing requirement for the short- and medium-term, it was decided at the end of 2011 not to undertake any comprehensive refinancing in April 2012. This meant that, as at year-end 2011, the requirements for hedge accounting were no longer satisfied and a hedge relationship no longer existed. The negative revaluation 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.

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.

Non-controlling interest

On 10 July 2012, Alliander acquired a 95% interest in Indigo B.V.. This company is a partnership between Alliander and the City of Nijmegen (which has an interest of 5%) established with the object of constructing a heat transmission main from the regional waste-to-energy plant Afvalverwerking Regio Nijmegen (ARN) to supply the district heating network to be built by Nuon Energy. As at the end of the reporting period, shareholders' equity of Indigo BV amounted to € 6 million. The result for 2012, given that hardly any activities were carried on during the year, was practically nil. In accordance with the basis of Alliander's consolidation, Indigo BV has been consolidated in full with separate disclosure of a non-controlling interest in the consolidated equity. However, the amount of this non-controlling interest, at € 0.3 million, means that it is not visibly accounted for on the face of the balance sheet as at year-end 2012.

Note 13 Interest-bearing debt

Interest-bearing debt

€ million	2012	2011
Carrying amount as at 1 January	**1,931**	**2,184**
Movements		
New loans	1,339	26
Loans repaid	-1,386	-281
Currency translation differences and other movements	12	2
Total	**-35**	**-253**
Carrying amount as at 31 December	**1,896**	**1,931**

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	2012	2011	2012	2011	2012	2011
Subordinated loans	8.8%	8.8%	4	3	94	98
Private and green loans	3.1%	3.3%	1	2	23	23
Euro Medium Term Notes	4.1%	4.6%	-	500	1,766	1,292
Banks	8.2%	8.2%	-	-	2	2
Other			-	4	6	7
Carrying amount as at 31 December			**5**	**509**	**1,891**	**1,422**

The short-term interest-bearing debt as at year-end 2012, amounting to € 5 million (2011: € 509 million), includes liabilities connected with employee schemes (mainly deposit schemes) in addition to the current portion of the non-current liabilities.

As at year-end 2011, a carrying amount of € 1,792 million (face value € 1,800 million) had been issued under the EMTN programme. In April 2012, a scheduled repayment of € 500 million was made. In June and November, Alliander issued notes under this programme with a face value of € 400 million on each occasion. In addition, in November, notes with a face value of € 324 million were redeemed prematurely, making the face value of the notes in issue as at 31 December 2012 € 1,776 million (carrying amount € 1,766 million). The premium paid in connection with the early redemption of notes (€ 44 million) has been accounted for in finance income and expense.

This refinancing, at lower interest rates, will result in a reduction of approximately € 15 million annually in the interest payable to holders of the notes over the next few years.

The notes issued under the EMTN programme are listed on the Amsterdam and Luxembourg stock exchanges. There was no ECP in issue at the end of 2012 (2011: nil).

Subordinated loans

These loans carry interest at rates of 8% to 10%. These loans are subordinated to other liabilities.

Maturities of interest-bearing debt

€ million	2012	2011
Less than 1 year	5	509
Between 1 and 2 years	282	5
Between 2 and 3 years	6	440
Between 3 and 4 years	422	5
Between 4 and 5 years	5	590
Over 5 years	1,176	382
Carrying amount as at 31 December	**1,896**	**1,931**

Note 14 Deferred income

Deferred income

€ million	2012	2011
Carrying amount as at 1 January	**1,505**	**1,474**
Contributions received	85	81
Amortisation recognised as income	-60	-57
Reclassification and other movements	-	7
Carrying amount as at 31 December	**1,530**	**1,505**

Deferred income relates to construction contributions, investment grants and subsidies received. The amortisation periods of the construction contributions, investment grants and subsidies are equal to the depreciation periods of the underlying assets (ranging from 10 to 50 years).

Note 15 Provisions for employee benefits

Provisions for employee benefits

	Current portion		Non-current portion		Total	
€ million	2012	2011	2012	2011	2012	2011
Long-term employee benefits						
Post-employment benefits	2	2	3	5	**5**	**7**
Other long-term employee benefits	12	11	43	40	**55**	**51**
Termination/reorganisation benefits	8	2	13	10	**21**	**12**
	22	**15**	**59**	**55**	**81**	**70**
Short-term employee benefits						
Short-term employee benefits	41	43	-	-	**41**	**43**
Carrying amount as at 31 December	**63**	**58**	**59**	**55**	**122**	**113**

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 an 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

Post-employment benefits concern the medical benefits scheme for retired employees. This scheme has not been transferred to an external insurance company or pension fund. The post-employment benefits provision totalled € 5 million at the end of 2012 (2011: € 7 million).
The provision for post-employment benefits was made up as follows:

Post-employment benefits

	Current portion		Non-current portion		Total	
€ million	2012	2011	2012	2011	2012	2011
Actuarial value of post-employment healthcare insurance	2	2	3	5	**5**	**7**
Actuarial value of obligations as at 31 December	**2**	**2**	**3**	**5**	**5**	**7**

Other long-term employee benefits

Alliander offers 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 is borne by Alliander for a period of between six months and 38 months, 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	2012	2011	2012	2011	2012	2011
Long-service benefits	2	1	29	25	**31**	**26**
Long-term sickness leave and disability benefits	4	4	7	4	**11**	**8**
Unemployment benefits	1	-	1	1	**2**	**1**
Reduction of older employees' working hours	4	5	5	9	**9**	**14**
Other	1	1	1	1	**2**	**2**
Carrying amount as at 31 December	**12**	**11**	**43**	**40**	**55**	**51**

Termination/reorganisation benefits

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 agreed. In 2012, an amount of € 18 million was added to the reorganisation provision (2011: € 3 million). The provision for termination payments/reorganisations totalled € 21 million at the end of 2012 (2011: € 12 million).

Movements in provisions for long-term employee benefits

The following table 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 2011	**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**
Movements 2012				
Released	-	-6	-3	**-9**
Added	-	14	18	**32**
Interest expenses	-	1	-	**1**
Benefits paid	-2	-5	-7	**-14**
Actuarial gains and losses recognised immediately	-	-	1	**1**
Total	**-2**	**4**	**9**	**11**
Carrying amount as at 31 December 2012	**5**	**55**	**21**	**81**

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

Assumptions

	2012	**2011**
Mortality tables	generation table 2010 - 2060 layer 2012	generation table 2010 - 2060 layer 2011
Discount rates	0.40%-2.89%	1.49%-3.84%
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 € 41 million at the end of 2012 (2011: € 43 million) and relate to all obligations to employees, other than the current portion of long-term employee 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	Other provisions	Total
Carrying amount as at 1 January 2011	**11**	**41**	**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**	**18**	**29**
Movements 2012			
Added	-	54	54
Utilised	-4	-3	-7
Reclassified to current liabilities	-	-	-
Released	-	-2	-2
Total	**-4**	**49**	**45**
Carrying amount as at 31 December 2012	**7**	**67**	**74**

The provision for environmental restoration costs relates to expected obligations with regard to soil pollution. The other provisions include the provision recognised in connection with the CDS, the provision for employees with a disadvantage on the labour market and the provisions connected with various disputes and lawsuits. As mentioned in note [34], the risk relating to the CDS is fully covered by provisions, the total amount recognised being made up of the fair value of the CDS, which is included in the derivatives presented under non-current liabilities, and the amount of the provisions disclosed in the other provisions column above. In 2012, there was a reduction of € 54 million in the negative fair value of the CDS, which was taken to income, as a result of which the amount added to the provision for the CDS and charged to income was increased by € 54 million. The net effect on the profit for 2012 was therefore in nil.
There was no change in the overall risk in 2012.

Note 17 Deferred tax

Deferred tax assets were as follows:

Deferred tax assets

€ million	2012	2011
Differences in valuation of property, plant and equipment	280	277
Tax losses carried forward	55	54
Hedge reserves	-	1
Other	-	14
Carrying amount as at 31 December	**335**	**346**

Other includes, among other things, differences in the reported amounts of derivatives and provisions and the accounting treatment for tax purposes.

Gross movements in deferred tax assets

€ million	Property, plant and equipment	Tax losses carried forward	Hedges	Other	Total
Carrying amount as at 1 January 2011	**323**	**32**	**1**	**12**	**368**
Movements 2011					
Added directly via equity	-	-	-	-2	**-2**
Realised temporary differences	-66	-	-	4	**-62**
Effect of 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**
Movements 2012					
Added directly via equity	-	-	-	-11	**-11**
Realised temporary differences	-55	-	-1	-3	**-59**
Effect of adjustment in forecast results	58	-	-	-	**58**
Adjustment in recognition of tax loss carryforwards	-	1	-	-	**1**
Total	**3**	**1**	**-1**	**-14**	**-11**
Carrying amount as at 31 December 2012	**280**	**55**	**-**	**-**	**335**

The deferred tax assets of € 280 million in respect of property, plant and equipment (2011: € 277 million) are the result of differences between the carrying amounts in the financial statements and the tax base agreed with the Dutch Tax Administration 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 Dutch Tax Administration as at 1 January 1998 have depreciation periods extending up to 2030 at the latest.

The lower figure for actual temporary differences in 2012 compared with 2011 in relation to the property, plant and equipment is mainly the effect of the ending of the temporary accelerated depreciation tax break for environmentally friendly technologies in 2011, which permitted investments to be written down over two years for tax purposes.
In 2012, revised forecasts of long-term profits led to an increase in the recognised deferred tax assets, with € 58 million taken to income.

The taxable profit for 2012 was almost nil, partly as a consequence of taking advantage of the accelerated depreciation tax break. 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 2012.

Unrecognised deferred tax assets

Unrecognised deferred tax assets as at year-end 2011, amounting to € 58 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 Administration of the carrying amounts of the property, plant and equipment as at 1 January 1998, which have depreciation periods extending up to 2030 at the latest.
In 2012, revised forecasts of long-term profits led to the recognition of all temporary differences, resulting in an increase of € 58 million in the deferred tax assets recognised in the income statement.
As at year-end 2012, there was an unrecognised deferred tax asset of € 3 million. This is connected with tax loss carryforwards relating to our activities in Germany.

Note 18 Trade and other payables

Trade and other payables

€ million	2012	2011
Trade payables	34	37
Amounts due to construction contract customers	7	4
Other payables	47	52
Carrying amount as at 31 December	**88**	**93**

Note 19 Leases

Finance lease receivables

At year-end 2012 and 2011, Alliander had no receivables on 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	2012	2011
Less than 1 year	24	27
Between 1 and 5 years	98	108
Over 5 years	81	92
Total	**203**	**227**

At 31 December 2012, 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 2012				
Future minimum lease obligations	9	36	222	**267**
Future finance expense on finance leases	-10	-39	-87	**-136**
Present value of finance lease obligations	**-1**	**-3**	**135**	**131**
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 2012 and year-end 2011 mainly related to an obligation in respect of two cross-border lease transactions.

The total future minimum lease obligations on operating leases were as follows:

Operating lease payables

€ million	2012	2011
Less than 1 year	19	20
Between 1 and 5 years	44	41
Over 5 years	1	1
Total	**64**	**62**

Alliander has operating lease payables in respect of buildings and company cars.

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	2012	2011
Capital expenditure commitments regarding property, plant and equipment	94	80
Other purchasing commitments	229	231
Total	**323**	**311**

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 €1 million had been issued on Alliander's behalf as at year-end 2012 (2011: € 2 million). As at year-end 2012, Alliander had also given guarantees totalling € 8 million relating to employees' mortgages (2011: € 8 million).
With respect to the cross-border lease commitments, securities in the form of letters of credit amounting to $ 74 million (2011: $ 103 million) had been issued as at year-end to cover the contingent liabilities. 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 € 57 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	2012	2011
Electricity transport and connection services	996	900
Gas transport and connection services	383	357
Metering services	162	161
Operating contributions and proceeds from transformer rental	133	168
Total	**1,674**	**1,586**

Revenue for 2012 was up by € 88 million (6%) compared with 2011, at € 1,674 million. This increase is largely accounted for by higher energy transport tariffs (€ 122 million) for both electricity and gas (regulated activities), partially offset by lower revenue from deregulated activities (€ 35 million).

Note 22 Other income

Other income

€ million	2012	2011
Amortisation of construction contributions	59	57
Other income	39	52
Total	**98**	**109**

Other income was € 11 million lower at € 98 million. The decrease was mainly the effect of a lower figure for other operating income due to a one-off compensation payment in 2011 of € 7 million.

Note 23 Purchase costs and costs of subcontracted work

The reduction of € 1 million resulted from a decline in subcontracted work, the effect of which was partially cancelled out by increased grid losses.

Purchase costs and costs of subcontracted work

€ million	2012	2011
Grid losses	114	110
Transport capacity and restrictions	134	134
Billing and payment collection	35	35
Contractors, materials and other	166	171
Total	**449**	**450**

Note 24 Employee benefit expenses

Employee benefits

€ million	2012		2011	
Salaries		318		300
Social security premiums		35		29
Pension costs:				
- contributions paid to multi-employer plans that are accounted for as defined-contribution plans		41		35
Termination benefit expenses	16		2	
Other long-term employee benefit expenses	9		3	
		25		**5**
Other staff costs		14		16
Total		**433**		**385**

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	Termination/ reorganisation benefits	Other long-term employee benefits	Total
2011				
Contributions paid to multi-employer plans	-35	-	-	**-35**
Added to provision	-	-3	-9	**-12**
Released from provision	-	2	7	**9**
Interest expense	-	-	-2	**-2**
Actuarial gains and losses	-	-1	1	**-**
Total 2011	**-35**	**-2**	**-3**	**-40**
2012				
Contributions paid to multi-employer plans	-41	-	-	**-41**
Added to provision	-	-18	-14	**-32**
Released from provision	-	3	6	**9**
Interest expense	-	-	-1	**-1**
Actuarial gains and losses	-	-1	-	**-1**
Total 2012	**-41**	**-16**	**-9**	**-66**

A note on the reorganisation costs is included in note [15] on provisions for employee benefits.

For further details of the other long-term employee benefits, reference is made to the disclosures in note [15].

The external staff costs amounted to € 121 million (2011: € 109 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)

	2012	2011
Employed in continuing operations		
- average during the year	5,675	5,430
- as at 31 December	5,807	5,543
- number of permanent staff outside the Netherlands	126	119

Remuneration of the Management Board and the Supervisory Board

The Remuneration Report sets out the remuneration policy, its implementation and the remuneration of the Management Board and the Supervisory Board. These three sections can be found on pages 96 to 99 of the 2012 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

	Fixed salary		Short-term variable remuneration		Long-term variable remuneration		Total	
€ thousand	2012	2011	2012	2011	2012	2011	2012	2011
P.C. Molengraaf	226	223	55	57	77	53	**358**	**333**
M.R. van Lieshout	213	210	52	54	73	48	**338**	**312**
Total	**439**	**433**	**107**	**111**	**150**	**101**	**696**	**645**

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 2010-2012 was finalised at the end of 2012. The figure presented for 2011 relates to the period 2009-2011.

Pension contributions

€ thousand	2012	2011
P.C. Molengraaf	39	37
M.R. van Lieshout	37	34
Total	**76**	**71**

Social security charges and other remuneration elements

€ thousand	2012 [1]	2011
P.C. Molengraaf	50	24
M.R. van Lieshout	57	24
Total	**107**	**48**

1 The 2012 figures include the crisis levy, totalling €54,000 pursuant to the 2013 Budget Agreement (Tax Measures) Implementation Act.

In addition to the normal social security charges and contributions applicable to the company, the members of the Management Board have a right to an employer's contribution towards the group health insurance premium, premiums in personal budget working conditions, a representation allowance and the use of a company car. In 2012, there was also the austerity windfall tax, in connection with which a total of € 54,000 was charged to the income statement.
The figures for 2011 include a reassessment of the representation allowances paid in prior years.

Remuneration of the Supervisory Board

€ thousand	2012	2011
E.M. d'Hondt, Chairman	32.7	33.5
F.C.W. Briët	30.2	29.2
Ms J.B. Irik	27.6	27.7
Ms J.G. van der Linde [1]	27.6	26.6
Mrs A.P.M. van der Veer-Vergeer	27,6	27.7
J.C. van Winkelen	30.2	29.2
G. Ybema, Deputy Chairman († 15 February 2012)	4.6	27.7
Total	**180.5**	**201.6**

1 Ms Van der Linde was appointed member of the Audit Committee on 24 March 2011.

Note 25 Other operating expenses

Other operating expenses

€ million	2012	2011
Additions to provisions	5	1
Premises and transport	16	24
Rent and leases	46	45
Corporate staff and ICT	49	48
Sufferance tax and other taxes	46	33
Other	57	43
Total	**219**	**193**

The auditors' fees were as follows:

Auditors' fees

€ million	2012	2011
Description of services:		
- Audit of the financial statements	1.0	1.5
- Other audit services	0.5	0.4
- Other assurance services	0.4	0.3
- Other non-audit services	0.4	0.7
Total	**2.3**	**2.9**

Note 26 Depreciation and impairment of non-current assets

Depreciation and impairment of property, plant and equipment

€ million	Land and buildings	Networks	Other plant and equipment	Total
2012				
Depreciation	6	221	83	**310**
Divestments	-	14	13	**27**
Total 2012	**6**	**235**	**96**	**337**
2011				
Depreciation	7	222	62	**291**
Divestments	-	17	4	**21**
Total 2011	**7**	**239**	**66**	**312**

No impairment losses were recognised with respect to the continuing operations in 2012. The divestments include the accelerated depreciation of decommissioned assets.

Note 27 Finance income

Finance income

€ million	2012	2011
Interest income on loans and deposits	3	6
Fair value of KEMA put option	11	-
Other finance income	16	11
Currency translation differences	34	12
Total	**64**	**29**

There were no assets qualifying for capitalisation of interest during the construction period in either 2012 or 2011.

Notes regarding the KEMA put/call options

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 Cogas also signed an agreement on the same date on the basis of which the two companies will be able to transfer the shares which they hold to DNV in due course. The agreement gives Alliander and Cogas a put option enabling the companies to sell their 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 and Cogas' shareholding in KEMA at a similarly agreed price.

The put and call options qualify as derivatives at fair value through profit or loss under IAS 39, recognised in finance income and expense. As at year-end 2012, the put option had a fair value of € 11 million and was recognised in the non-current assets and the call option had a fair value of € 7 million and was recognised in the non-current liabilities. For a more detailed explanation of the way in which these options are measured and recognised, reference is made to note [34].

Note 28 Finance expense

Finance expense

€ million	2012	2011
Loans from third parties	-139	-142
Fair value movements interest rate derivatives	-20	-42
Fair value movement KEMA call option	-7	-
Fair value movements commodity swaps	-	-1
Currency translation differences	-30	-11
Other finance expense	-13	-9
Total	**-209**	**-205**

The finance expense relating to loans from third parties includes € 44 million in premium paid in connection with the early redemption of bonds with a face value of € 324 million issued under the EMTN programme.

The fair value of interest rate derivatives chiefly relates to four interest rate derivative contracts that were settled in 2012, amounting to € 18 million.
The other finance expense includes costs for letters of credit and arranging credit lines.

Note 29 Tax

Tax

€ million	2012	2011
Current tax income/expense	1	76
Movement in deferred taxes	-11	-42
Total	**-10**	**34**

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

%	2012	2011
Enacted corporate income tax rate in the Netherlands	**25.0**	**25.0**
Impact of:		
- release of liabilities for previous years	-	-32.1
- adjustment in carrying amount of deferred tax assets	-23.4	-9.0
- permanent differences	2.4	1.0
Effective corporate income tax rate	**4.0**	**-15.1**

The lower effective tax burden in 2012 and 2011 relative to tax at the standard rate is largely due to an adjustment in the recognised deferred tax assets following adjustments in the projected long-term results and, as at year-end 2011, an amount released from the corporate income tax liabilities for prior years. See also note [17]. 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 2012 amounted to € 545 million (2011: € 557 million). The lower figure compared with 2011 is mainly accounted for by a lower net profit in 2012.

Cash flow from investing activities

The cash outflow associated with investing activities increased from € 398 million in 2011 to € 498 million in 2012. The increase of € 100 million is largely explained by the increase in capital expenditure on the networks.

Cash flow from financing activities

The cash flow from financing activities in 2012 amounted to € 53 million negative (2011: € 554 million negative). The difference, of € 501 million, is due in part to the issue in 2012 of two new bond loans totalling € 800 million. In addition, bonds amounting to € 500 million were redeemed on schedule in 2012 and own bonds amounting to € 324 million were repurchased prior to maturity. An amount of € 220 million was also withdrawn from short-term deposits during the year, leaving a year-end balance of € 75 million. Finally, dividends totalling € 113 million were paid out along with € 24 million in coupon interest on the perpetual subordinated bond loan. The settlement in October 2012 of four interest rate swaps, involving a total amount of € 57 million, and the premium paid in connection with the early redemption of own bonds, amounting to € 44 million (2011: € 30 million), have been included in the cash flow from financing activities.

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.

Endinet B.V. is owner of the local electricity distribution network in Eindhoven. Endinet is also owner of the local gas distribution network in Eindhoven and in the wider Eindhoven and Oost-Brabant region. Endinet B.V. is designated network operator of these electricity and gas networks under the E-Act and G-Act (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 2012, 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. These associates and joint ventures are accordingly treated as related parties.

The following transactions with regard to sales and purchases of goods and services have taken place with related parties:

Related party transactions

€ million	2012	2011
Sales of goods and services		
- associates	2	-
- joint ventures	43	5
Total	**45**	**5**
Purchase of goods and services		
- associates	7	1
- joint ventures	94	7
Total	**101**	**8**

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. As at year-end 2012, Alliander had granted loans amounting to € 6 million to related parties (2011: nil).

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 2012 or in 2011.

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. The credit risk is the risk arising in connection with the default of counterparties to trading and sales transactions.
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; this mainly affects 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 2012 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 2012 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 2012					
Exposure in USD	145	-16	13	-	-
Hedged position in USD	-145	16	-13	-	-
Sensitivity of cash flow in USD (net)	-	-	-	-	-
Total exposure in foreign currencies	145	-16	13	-	-
Total hedged position in foreign currencies	-145	16	-13	-	-
Sensitivity of cash flow in foreign currencies (net)	-	-	-	-	-
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)	-	-	-	-	-

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

Exchange rates

EUR	2012	2011
USD	1.32	1.30

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.

As at year-end 2012, Alliander no longer had any interest rate swaps outstanding (2011: € 39 million negative).

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 2012						
Assets						
Available-for-sale financial assets and other financial assets	3.01%	Variable	-	137	177	**314**
Loans and receivables			75	44	2	**121**
Cash and cash equivalents		Variable	100	-	-	**100**
Total assets			**175**	**181**	**179**	**535**
Loans received						
Subordinated loans	8.8%	Fixed	-4	-19	-75	**-98**
Private and green loans	3.1%	Fixed	-1	-23	-	**-24**
Euro Medium Term Notes	4.1%	Fixed	-	-671	-1,095	**-1,766**
Banks	8.2%	Fixed	-	-2	-	**-2**
Other		Variable	-	-	-6	**-6**
Finance lease obligations	6.7%	Fixed	1	3	-135	**-131**
Total current and non-current financial liabilities			**-4**	**-712**	**-1,311**	**-2,027**
Total liabilities			**-4**	**-712**	**-1,311**	**-2,027**
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 short-term and long-term 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**

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 2012 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 2012					
Variable-rate instruments	231	-2	2	4	-4
Sensitivity of cash flow (net)	**231**	**-2**	**2**	**4**	**-4**
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**	**-**	**-**

Hedging transactions

Fair value hedging

In order to provide a complete or partial hedge against risks of fluctuations in the fair value of financial assets and/or liabilities as well as commitments entered into, Alliander made use of derivative financial instruments in preceding years.

Using a number of interest rate swaps, a proportion of the fixed-rate bond loan issued in 2004 was converted into a variable-rate loan. Prior to 2007, changes in the market value of this loan as well as of the swaps designated as hedges were recognised in finance income and expense. Following the settlement of this fair value hedge in 2007, the loss carried in the fair value hedge reserve is being amortised over the remaining term to maturity of this loan (2014), or until such time as the loan is 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 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, there are no future cash flows from these interest rate swaps.
The accumulated losses of € 2 million as at 31 December 2012 (2011: € 5 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 were settled in 2012. The gross amount of € 18 million was charged to the income statement in 2012.

The table below presents the pre-tax movements in the cash flow hedge reserve in the financial year.

As at 31 December 2012, the cash flow hedge reserve was € 2 million net of deferred tax (2011: € 5 million).

Cash flow hedges

€ million	Hedge ineffective-ness	Hedge reserve as at 1 January	Changes in fair value	Transfer to Income	Hedge reserve as at 31 December
2012					
Interest rate risks					
Interest rate swaps	-	-5	-	3	-2
Total 2012	**-**	**-5**	**-**	**3**	**-2**
2011					
Interest rate risks					
Interest rate swaps	-	-15	-32	42	-5
Total 2011	**-**	**-15**	**-32**	**42**	**-5**

Credit risk

General

Credit risk is the risk of a loss being incurred because a counterparty is unable or unwilling to meet its obligations. Credit analysis and management are applied throughout the organisation, with the degree of review undertaken varying depending on the magnitude of the credit risk in a transaction.
Surpluses of cash and cash equivalents 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 and interest rate and currency derivatives, is placed or invested with parties with a credit rating of A or higher. 88% of the cash and cash equivalents (2011: 86%) 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 $ 4.1 billion (2011: $ 4.0 billion). This includes the risk on an investment in a credit default swap transaction with an underlying reference portfolio of $ 12.8 billion (2011: $ 12.8 billion), where the credit risk for Alliander has been capped at $ 171 million (€ 130 million; 2011: € 132 million). The carrying amount of the associated available-for-sale financial assets included in Alliander's balance sheet amounts to € 177 million (2011: € 149 million). The CDS had a fair value of € 66 million negative as at 31 December 2012 (2011: € 120 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	2012	2011
Not overdue	101	89
0-30 days	63	38
31-90 days	10	11
91-360 days	10	9
> 360 days	15	17
Carrying amount as at 31 December	**199**	**164**

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

Movements in the provision for bad debt

€ million	2012	2011
Carrying amount as at 1 January	21	23
Utilised (trade receivables written off)	-4	-6
Added to allowance account (charged to income)	3	4
Carrying amount as at 31 December	**20**	**21**

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 (2011: 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 2012, Alliander prolonged the term of the committed credit facility of € 600 million from July 2016 till July 2017. This 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 2012, Alliander has an ECP programme of € 1.5 billion and an EMTN programme of € 3 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 limited 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 (International Swaps and Derivatives Association) and CSAs (Credit Support Annexes). In 2012, Alliander did not receive any margin call requests.

Liquidity risk 2012 and 2011

€ million	Carrying amount	Contractual cash flows Less than 1 year	1 - 5 years	Over 5 years	Total
As at 31 December 2012					
Loans received					
Principal amounts	-1,890	-5	-718	-1,175	**-1,898**
Interest		-77	-243	-478	**-798**
Finance lease obligations	-131	9	36	222	**267**
Accounts payable	-88	-88	-	-	**-88**
Other payables	-359	-359	-	-	**-359**
Off balance sheet commitments					
Operating lease liabilities		-19	-44	-1	**-64**
Currency instruments					
Forward obligations	5				
Buy		153	-	-	**153**
Sell		-148	-	-	**-148**
Total		**5**	**-**	**-**	**5**
Other derivatives	-73	-	-73	-	**-73**
Total	**-2,536**	**-534**	**-1,042**	**-1,432**	**-3,008**
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**

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 2012 that differ from their carrying amount.

Fair value of financial assets and liabilities 2012 and 2011

€ million	Note	Carrying amounts of IAS 39 categories: Other payables	Off balance sheet commitments	Total	Fair value
As at 31 December 2012					
Loans received	13	-1,890	-	-1,890	-2,171
Finance lease obligations	19	-131	-	-131	-132
Off balance-sheet commitments from operating lease liabilities	19	-	-64	-64	-61
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

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 EUR swap 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. In the case of loans for which market quotes are not available, the fair value of the short-term and long-term debt 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 2012. 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 2012:

1-year	0.61%	(2011: 1.41%)
5-year	1.45%	(2011: 2.09%)
10-year	2.48%	(2011: 3.27%)
20-year	3.47%	(2011: 4.43%);

- 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 nature, corresponds to 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

	31 December 2012				31 December 2011			
€ million	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Assets								
Available-for-sale financial assets	-	314	-	**314**	-	279	-	**279**
Non-current derivatives	-	-	11	**11**	-	-	-	**-**
Current derivatives	-	5	-	**5**	-	-	-	**-**
Total Assets	**-**	**319**	**11**	**330**	**-**	**279**	**-**	**279**
Liabilities								
Non-current derivatives	-	66	7	**73**	-	120	-	**120**
Current derivatives	-	-	-	**-**	-	49	-	**49**
Total Liabilities	**-**	**66**	**7**	**73**	**-**	**169**	**-**	**169**

Note

The level 3 derivatives concern the put option (€ 11 million) and the call option (€ 7 million) which are part of the agreement relating to KEMA shares. See also note [27]. The valuation of these options was done using the Black & Scholes option valuation model. The risk-free rate used in the model was taken as being equal to the weighted average overnight euro interbank offered rate (Eonia). In view of the contractual terms and conditions, the remaining term to maturity of these options has been taken as between 1 and 2 years. The applied volatility was calculated at 30%. Changes in the volatility affect the carrying amounts of the options themselves but their effect on profits is practically nil.
Under IAS 39, options are measured at fair value, with gains and losses recognised in finance income and expense in the income statement. In view of the date of the KEMA agreement, these options were recognised for the first time in 2012.

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.
For the purposes of Alliander's financial framework, the subordinated perpetual bond loan issued in 2010 is treated as 50% equity and 50% borrowed capital, in contrast to IFRS, under which the subordinated perpetual bond loan is considered to be 100% equity.

Finance income and expense

The table below shows the income and expenses recognised in respect of financial instruments in the income statement:

Effect of financial instruments on income statement

€ million	2012	2011
Net result on derivatives held for trading:		
Fair value changes in currency instruments	13	-10
Fair value changes interest rate derivatives and options	-13	-39
Net result on available-for-sale financial assets	-3	9
Net result on financial liabilities at amortised cost:		
Interest charges on financial liabilities at amortised cost	-139	-142
Interest gains on cash equivalents, loans granted, trade receivables, other receivables and deposits	19	17
Currency translation differences on restricted cash	-6	1
Fees paid and received other than for the calculation of the effective interest rate	-13	-9
Net changes in fair value of cash flow hedges transferred from equity	-3	-3
Net finance income and expense	**-145**	**-176**
Impairment of trade receivables	-3	-4
Net result on derivatives held for trading:		
Fair value changes other financial instruments	-	-1
Other operating expenses	**-3**	**-5**

The table below shows the income and expenses recognised in respect of financial instruments directly in shareholders' equity:

Effect of financial instruments on equity

€ million	2012	2011
Effective part of changes in fair value of cash flow hedges	-	-32
Net changes in fair value of cash flow hedges transferred to the income statement	3	42
Total recognised in cash flow hedge reserve	**3**	**10**

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 impairment 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 strategic asset 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 and other receivables

Alliander regularly assesses the recoverability of 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 losses.

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 with respect to risks and financial instruments are described in note [34].

Note 36 Events after the balance sheet date

Network company Alliander will enter into a partnership with KPN and Entropia Digital in setting up a dedicated mobile telecommunications network for energy networks. In connection with this alliance, Alliander acquired the entire share capital of Utility Connect B.V. from KPN on 1 February 2013 for an initial purchase price of € 7 million. Utility Connect holds a CDMA frequency licence. Also on 1 February 2013, the entire share capital of Entropia Assets B.V. was acquired by Alliander from Entropia Digital B.V. for an amount of € 11 million. Entropia Assets owns the network of transmission masts.

In the years ahead, Alliander expects to see the expansion of smart grids. Such networks incorporate sensors to allow better remote monitoring and control of energy flows. Data communications traffic will become more intensive and more important as a consequence and wireless telecommunications have an important role to play in these developments and are anticipated in Alliander's partnership with KPN and Entropia Digital.

Company financial statements

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

€ million	Note	2012		2011	
Non-current assets					
Property, plant and equipment	37	214		188	
Intangible assets	38	104		104	
Investments in subsidiaries and associates	39	2,179		3,314	
Derivatives	8	11		-	
Other financial assets	40	101		96	
Total non-current assets			**2,609**		**3,702**
Current assets					
Other receivables		24		14	
Other financial assets		75		295	
Receivables from subsidiaries	41	2,562		1,215	
Cash and cash equivalents	42	80		104	
Total current assets			**2,741**		**1,628**
Total assets			**5,350**		**5,330**
Equity	43				
Share capital		684		684	
Share premium		671		671	
Subordinated perpetual bond [1]		494		494	
Hedge reserve [1]		-2		-5	
Revaluation reserve [1]		28		-	
Other reserves		1,104		984	
Profit after tax		224		251	
Total equity			**3,203**		**3,079**
Provisions	44		**65**		**68**
Non-current liabilities					
Interest-bearing debt	45	1,885		1,416	
Derivatives	8	7		-	
Total non-current liabilities			**1,892**		**1,416**
Current liabilities					
Current and accrued liabilities		190		767	
Total current liabilities			**190**		**767**
Total equity and liabilities			**5,350**		**5,330**

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

Company income statement

€ million	Note	2012	2011
Other income less expenses after tax	47	-56	1
Result of subsidiaries and associates after taxation		280	250
Net profit after tax		**224**	**251**

Notes to the company financial statements

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. As permitted by Section 402, Part 9, Book 2, of the Netherlands Civil Code, the company income statement is presented in abridged form.

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 consideration paid 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	154	169	16	**339**
Accumulated depreciation and impairment	-69	-88	-	**-157**
Carrying amount as at 1 January 2011	**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**
Movements 2012				
Investments	-	2	46	**48**
Divestments	-	-4	-	**-4**
Depreciation	-4	-47	-	**-51**
Transfers and other movements	4	74	-45	**33**
Total	**-**	**25**	**1**	**26**
Carrying amount as at 31 December 2012				
Historical cost	158	268	23	**449**
Accumulated depreciation and impairment	-77	-158	-	**-235**
Carrying amount as at 31 December 2012	**81**	**110**	**23**	**214**

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 [4].

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 2011	**3,011**	**55**	**3,066**
Movements 2011			
Dividends received	-	-1	**-1**
Result for the year	251	-1	**250**
Internal transfers	-	-1	**-1**
Movement in hedge reserve	-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**
Movements 2012			
Dividends received	-1,402	-15	**-1,417**
Result for the year	282	-2	**280**
Internal transfers	-	-34	**-34**
Issue of share capital	6	-	**6**
Movement in revaluation reserve	28	-	**28**
Other movements	2	-	**2**
Total	**-1,084**	**-51**	**-1,135**
Carrying amount as at 31 December 2012	**2,179**	**-**	**2,179**

In 2012, an amount of € 1,402 million was received in dividends from subsidiaries, with a further € 15 million received as dividend from N.V. KEMA. The dividends received from subsidiaries, including Liander N.V. and Endinet Groep B.V., result from the capital restructuring of these companies in line with Alliander's policy. Internal transfers mainly relates to the transfer of N.V. KEMA and Ziut B.V. from Alliander N.V. to Alliander Participaties B.V.. The investment of € 6 million in 2012 relates to a payment of share capital for Indigo B.V..

Note 40 Other financial assets

Other financial assets

€ million	Deferred tax assets	Other receivables	Total
Carrying amount as at 1 January 2011	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**
Movements 2012			
New receivable	-	6	**6**
Realised temporary differences	-2	-	**-2**
Tax losses carried forward	1	-	**1**
Total	**-1**	**6**	**5**
Carrying amount as at 31 December 2012	**59**	**42**	**101**

Note 41 Receivables from subsidiaries

There is group-wide financing within the Alliander group, meaning that the activities of all subsidiaries are financed through a current account facility with the holding company. External financing is arranged by the holding company itself. In 2012, there was a capital restructuring of these companies in line with Alliander's policy, resulting in the payment of dividends to the holding company. This largely explains the increase in the receivables from subsidiaries in 2012.

Note 42 Cash and cash equivalents

The cash and cash equivalents balance at the end of 2012 did not include any restricted cash (2011: nil).

Note 43 Equity

The statement of changes in equity is included in the consolidated financial statements.

Note 44 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 2011	**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**
Movements 2012						
Released	-	-3	-	-	-	**-3**
Added	-	16	13	-	-1	**28**
Utilised	-2	-6	-9	-4	-3	**-24**
Interest	-	-	1	-	-	**1**
Actuarial gains and losses recognised immediately	-	1	-	-	-	**1**
Major curtailments and settlements	-	-7	-		1	**-6**
Total	**-2**	**1**	**5**	**-4**	**-3**	**-3**
Carrying amount as at 31 December 2012	**3**	**11**	**42**	**7**	**2**	**65**

The post-employment medical benefits concerns 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 2012, the reorganisation provision amounted to € 11 million (2011: € 10 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 45 Non-current liabilities

Interest-bearing debt

€ million	2012	2011
Carrying amount as at 1 January	**1,921**	**135**
Movements		
Merger Alliander Finance B.V.	-	2,039
New loans	1,338	-
Repayments	-1,368	-253
Total	**-30**	**1,786**
Carrying amount as at 31 December	**1,891**	**1,921**

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	2012	2011	2012	2011	2012	2011
Subordinated loans	8.8%	8.8%	4	3	94	98
Private and green loans	3.1%	3.3%	1	2	23	24
Medium Term Notes	4.1%	4.6%	-	500	1,766	1,292
Banks	8.2%	8.2%	-	-	2	2
Carrying amount as at 31 December			**5**	**505**	**1,885**	**1,416**

Subordinated loans

These loans were provided by shareholders and are subordinate to other liabilities.

Note 46 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 2012, Alliander had issued parent company guarantees amounting to € 37 million (2011: € 32 million). Bank guarantees amounting to € 1 million had been issued on Alliander's behalf as at year-end 2012 (2011: € 2 million). As at year-end 2012, Alliander had also given guarantees totalling € 8 million relating to employees' mortgages (2011: € 8 million).

Note 47 Other income less expenses after tax

Net other income and expenses after tax was an expense of € 56 million (2011: € 1 million income), mainly relating to company-wide activities at holding company level. The lower figure compared with 2011 is largely accounted for by the premium paid in connection with the repurchase of corporate bonds and the premature settlement of interest rate swaps.

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 139 to 140 of the 2012 consolidated financial statements.

Arnhem, 15 February 2013

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

Supervisory Board
E. M. d'Hondt (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

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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 2012 of Alliander N.V., Arnhem as set out on pages 100 to 164. 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 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for 2012 and the notes, comprising a summary of the principal accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2012, 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 the Management Board 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 that 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' judgement, 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 2012, 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 2012, 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, 15 February 2013
PricewaterhouseCoopers Accountants N.V.

Original signed by
J.A.M. Stael RA

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 2012

The Management Board has determined, with the approval of the Supervisory Board, to add € 150.0 million of the profit to other reserves. The remaining profit of € 74.4 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 2012 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.

events after balance sheet date

Network company Alliander will enter into a partnership with KPN and Entropia Digital in setting up a dedicated mobile telecommunications network for energy networks. In connection with this alliance, Alliander acquired the entire share capital of Utility Connect B.V. from KPN on 1 February 2013 for an initial purchase price of € 7 million. Utility Connect holds a CDMA frequency licence. Also on 1 February 2013, the entire share capital of Entropia Assets B.V. was acquired by Alliander from Entropia Digital B.V. for an amount of € 11 million. Entropia Assets owns the network of transmission masts.

In the years ahead, Alliander expects to see the expansion of smart grids. Such networks incorporate sensors to allow better remote monitoring and control of energy flows. Data communications traffic will become more intensive and more important as a consequence and wireless telecommunications have an important role to play in these developments and are anticipated in Alliander's partnership with KPN and Entropia Digital.

significant subsidiaries and other participations

Significant subsidiaries and other participations

As at 31 December 2012

	Registered office	%
Significant consolidated subsidiaries		
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%
MPARE B.V.	Duiven	100%
Indigo B.V.	Nijmegen	95%
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	50%
Other participations (non-consolidated)		
Ziut B.V.		53%
Reddyn B.V.		50%
Redstack B.V.		33%
N.V. KEMA		25%
The New Motion B.V		22%
Plugwise Holding B.V.		25%
EDSN B.V.		15%
Locamation Beheer B.V.		14%
INNAX Group B.V.		6%

* Alliander N.V. has issued a Section 403 statement of liability for these subsidiaries.

A complete list of investments in subsidiaries, associates and joint ventures, as required by sections 379 and 414 of Book 2 Title 9 of the Netherlands Civil Code, is filed with the Chamber of Commerce in Arnhem.

assurance report

To: the Management Board of Alliander N.V.

Report on the 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 2012 reporting year, as presented in 'About this Report' on page 2 and ' Strategy and Policy in 2012' on page 4 to 39 and page 56 to 71 (hereafter: 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 2012.

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 assess whether the information in the Corporate Social Responsibility Report is adequately substantiated;
- Assessing the overall presentation of the Corporate Social Responsibility Report in accordance with the reporting criteria of Alliander N.V.;
- Assessing the consistency of the corporate social responsibility information in the annual report 2012 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, 15 February 2013
PricewaterhouseCoopers Accountants N.V.

Original signed by:
J.A.M. Stael RA

GRI declaration

This report has been prepared in accordance with the Global Reporting Initiative (GRI) Guidelines. These guidelines provide an assurance of transparent reporting for stakeholders. The GRI G3 Guidelines in combination with the Electric Utilities Sector Supplement (April 2009) have been used for this report.

A detailed record of the application of the GRI Guidelines is included in the GRI table.

Global Reporting Initiative™

Statement
GRI Application Level Check

GRI hereby states that **Alliander** has presented its report "Annual report 2012" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level A+.

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, 7 February 2013

Nelmara Arbex
Deputy Chief Executive
Global Reporting Initiative

A+
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.

The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. www.globalreporting.org

***Disclaimer:** Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 7 February 2013. GRI explicitly excludes the statement being applied to any later changes to such material.*

five-year summary

Five-year summary

€ million	2012	2011	2010	2009 [3]	2008 [1]
Result					
Revenue	1,674	1,586	1,432	1,446	6,147
Total operating income	1,772	1,695	1,525	1,750	6,271
Total operating expenses	-1,378	-1,297	-1,195	-1,259	-5,486
Operating profit	394	398	330	491	785
Profit before tax from continuing operations	234	217	230	383	877
Profit after tax	224	251	222	312	765
Balance sheet					
Net working capital	-96	-112	-61	-25	335
Property, plant and equipment	5,821	5,575	5,402	4,638	6,969
Total assets	7,414	7,318	7,400	6,756	14,501
Equity	3,203	3,079	2,906	2,245	6,268
Total interest-bearing debt	1,896	1,931	2,184	2,225	1,221
Total financing	5,099	5,010	5,090	4,470	7,491
Capital expenditure on non-current assets	583	479	371	397	943
Cash flows					
Cash flow from operating activities	545	557 [4]	508	372	1,028
Cash flow from investing activities	-498	-398	-340	-153	-1,215
Cash flow from financing activities	-53	-554 [4]	-118	-763	-523
Free cash flow	47	159 [4]	168	152	202
Ratios					
Non-current interest-bearing debt as % of total interest-bearing debt	100%	74%	99%	97%	96%
ROIC	6.9%	7.2%	6.9%	7.8%	10.2%
FFO/Net debt	30.9%	34.1%	32.7%	25.4%	22.5%
Interest cover	6.0	5.8	5.5	3.7	n/a [2]
Equity as % of total assets less deferred income (solvency)	49.5%	47.5%	44.3%	41.6%	48.3%
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 (thousand)	3,087	3,057	3,020	2,884	2,832
New connections (thousand)	31	36	40	41	44
Cables laid (km)	1,160	1,167	883	1,104	1,336
Gas					
Active connections as at 31 December (thousand)	2,644	2,630	2,607	2,137	2,127
New connections (thousand)	22	23	26	23	24
Mains laid (km)	196	206	205	194	358
Volumes transported					
Electricity (GWh)	30,522	30,576	30,940	29,408	32,950
Gas (million m^3)	7,461	7,039	8,746	6,138	6,232
Other					
Number of disconnections (consumer and business market)	12,364	12,134	9,551	8,223	7,226
Facilitated supplier switches (thousand)	781	744	608	538	448
Annual electricity outage Liander (minutes)	24.5	20.0	31.2	27.4	24.0
Average number of permanent staff (FTE)	5,675	5,430	4,975	4,561	4,327

1 The reported results for 2009 are from continuing operations, as n.v. Nuon Energy was unbundled on 30 June 2009. The figures 2008 relate to the integrated energy company n.v. Nuon.
2 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.
3 The figures have been adjusted for comparison purposes.
4 The figures for 2011 have been restated in connection with a change in presentation to include the premium paid in connection with the early redemption of bonds in the cash flow from financing activities.

definitions and abbreviations

This list contains simple explanations of technical and other terms used in this annual report.

Definitions

Caidi (customer average interruption duration index)
The average time for which power is off per outage incident.

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.

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
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 to a number of employees with a full working week.

Guarantee of origin
The Guarantee of origin certificate is a guarantee that electricity has been generated by wind power, hydroelectric power, solar power or biomass-fired installations.

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 due to properties being unoccupied, fraud and energy theft.

LTIF (lost time injury frequency)
Number of accidents leading to sickness absence 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.

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.

NO_x
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 the natural environment, the security of electricity and gas transmission and distribution and the efficient and optimum management of networks.

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 operation of connections to the electricity network with a load value up to 10 MVA;
- the construction, maintenance, renewal and operation of electricity and gas networks;
- the transport 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 remuneration 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 22,800. SF_6 has good electrical insulating properties and is therefore frequently used 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 grids
A smart grid is different in structure compared to a traditional grid; in a smart grid ICT and sensor-technology are applied in sub-stations and medium voltage units and the capacity of the network is upgraded from 10 kV to 20 kV.

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.

Solvency ratio
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 Power
COR	Central Works Council
CSR	Corporate Social Responsibility
E-Atlas	Energy Atlas
EBIT	Earnings Before Interest and Taxes
EDSN	Energie Data Services Nederland
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
GPRS	General Packet Radio Service
HV	High-Voltage
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICT	Information and communication technology
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ISO	International Standard 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	Nederlands Instituut van Registeraccountants
NOREA	Nederlandse Orde van Register 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	Gas Safety Instruction
WACC	Weighted Average Cost of Capital
WIA	Work and Income according to Labour Capacity Act
WNT	Act on Regulating Top Salaries
WON	Dutch Independent Network Operation Act
WW	Unemployment Act

Energy-related abbreviations

Bar	Unit of pressure still used for gas
GJ	Gigajoule; i.e. 1,000 MJ. 1 GJ is the equivalent of approximately 29 m^3 gas or278 kWh
GW	Gigawatt; i.e. 1,000 MW
GWh	Gigawatt-hour; i.e. 1,000 MWh
J	Joule, the SI unit of energy
kJ	Kilojoule; i.e. 1,000 J
kV	Kilovolt; i.e. 1,000 V
kVA	Kilovolt ampère – measure of electrical power
kW	Kilowatt; i.e. 1,000 W
kWh	Kilowatt hour
MJ	Megajoule; i.e. 1,000 kJ
MWh	Megawatt hour; i.e. 1,000 kWh
MVA	Megavolt-ampère
MW	Megawatt; i.e. 1,000 kW
MWh	Megawatt hour; i.e. 1,000 kWh
TJ	Terajoule; i.e. 1,000 GJ
TWh	Terawatt hour; i.e. 1,000 GWh
W	Watt; SI unit of power

February 2013

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