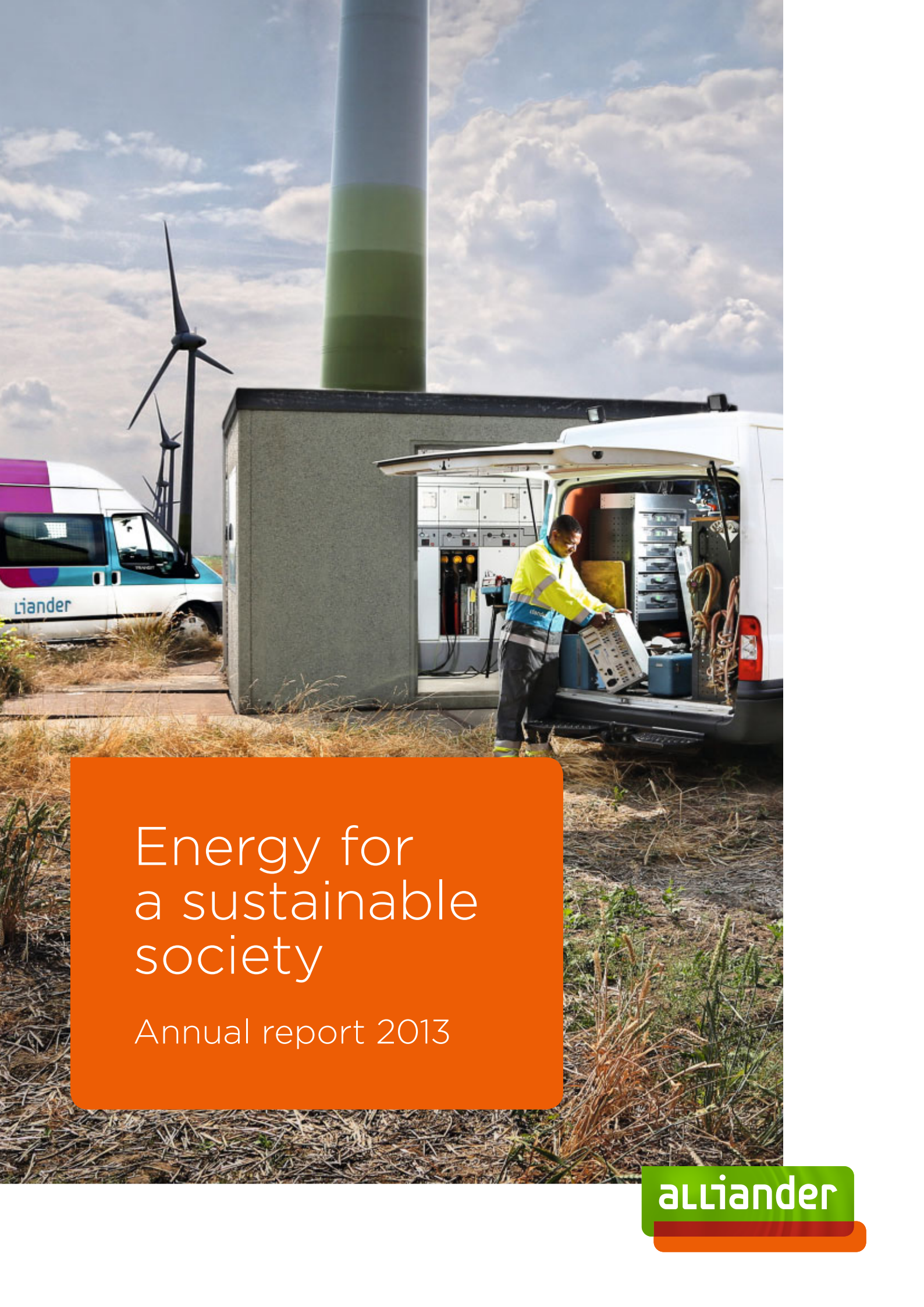




Energy for a sustainable society

Annual report 2013

allliander



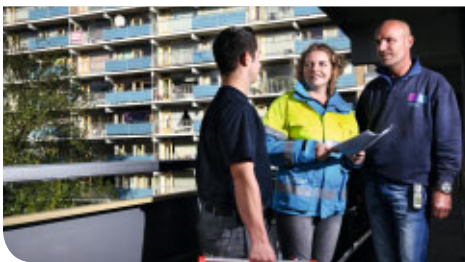
Welcome to Alliander

Alliander is the largest regional energy network company in the Netherlands. Our energy infrastructure distributes electricity and gas to millions of customers every day. We support society in its transition to sustainable forms of energy.



We are driven

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



We are committed to

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



We aim

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

Key data



Number of
employees

7,157



Electricity outage
duration
(minutes)

24



CO₂ emissions
(ktonnes)

819



Revenue
(€ billion)

1.7



Customer satisfaction
Consumer market

91%



Customer satisfaction
Business market

85%



Key figures Alliander¹

Customers

Customer satisfaction – consumer market¹

Customer satisfaction – business market¹

Average outage duration per customer¹

Number of connections with feed-in installations¹

Number of smart meters

Employees

Number of employees at year-end

Absenteeism

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

Employee satisfaction survey²

Employees at a distance from the labour market³

Shareholders and lenders

Revenue

Profit after tax

Total assets

Investments in property, plant and equipment

Credit rating of Alliander N.V.

CO₂ emissions

Socially responsible procurement (SRP)⁴

Unit	2013	2012
per cent	91	93
per cent	85	87
minutes per year	24.0	24.5
in thousands	49	22
in thousands	502	379
number	7,157	7,140
per cent	4.1	4.0
number	2.6	2.0
score	8.2	8.3
number	80	75
€ million	1,744	1,674
€ million	288	224
€ million	7,548	7,414
€ million	570	578
S&P/Moody's	AA-/Aa3	A+/Aa3
ktonnes	819	805
per cent	47	42

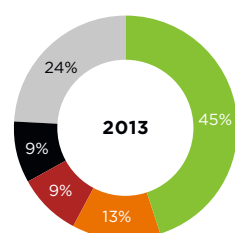
¹ Key figures for 2013 and 2012 on customer satisfaction, outage duration and number of connections with feed-in installations concern Liander.

² The employee satisfaction survey involves Alliander excluding Endinet, Alliander AG and Stam.

³ Alliander provides support to people whose personal circumstances make it more difficult for them to find work.

⁴ The SRP percentages for 2013 and 2012 concern Alliander excluding Endinet.

Shareholders



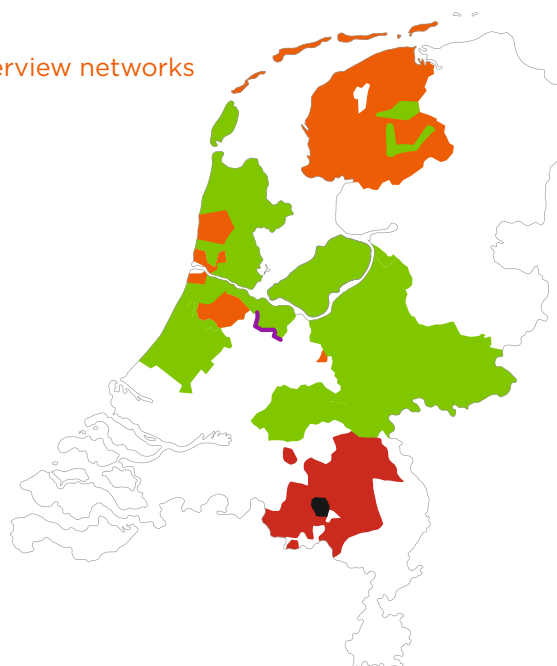
Geographical overview networks

Liander

- Electricity and gas
- Electricity
- Gas

Endinet

- Electricity and gas
- Gas





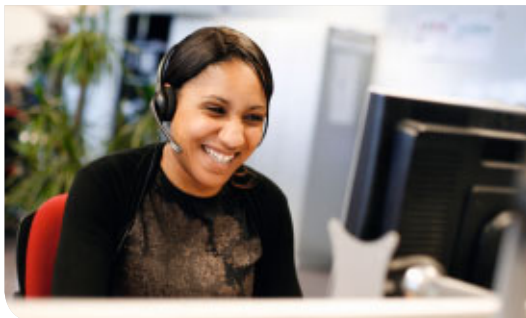
Highlights 2013

Energy for everyone: that is our key objective. Every day we strive to give customers all the energy support they need. In this overview, we have summarised the most important events and results of the past year.

Customers

Lots of innovation in the networks

Liander tested innovative technologies, equipment and processes in the mid voltage network in the Bommelerwaard. In cooperation with universities, research institutes and industry, the network operator acquired significant practical knowledge. We also began installing a wireless telecom network in all regions, which will reinforce digital communication (with e.g. the smart meter) in our energy networks.



A single point of contact for customers

Since the introduction of the supplier model in August 2013, consumers now have a single point of contact for energy: the energy supplier. Our administrative processes have also been significantly simplified. Meanwhile, network operators still inform consumers directly about their connection, maintenance and interruptions.

New markets for renewable energy

In 2013, we initiated new business activities relating to sustainable area development, sustainable housing and electric mobility. We are helping make the regions more sustainable, one example being the public heating networks we are constructing.





Employees

Award for 'Employee Development'

In the Great Place to Work survey, our employees indicated that they have sufficient opportunities to develop their competences. Alliander was proud to receive an award for 'Employee Development'.



Working more efficiently

In 2013, programmes were initiated to improve the efficiency of our business operations. Expertise is bundled in teams at our locations in order to work better together.

Shareholders and investors

€504
million

High investments in our energy networks

In 2013, our investments in the energy networks remained at the same high level.

S&P credit rating upgrade

The S&P rating agency upgraded our credit rating from A+ to AA-. The rating, which gives existing and potential financiers insight into our creditworthiness, ensures that we continue to have good access to capital and money markets.





About this report

In this annual report we give an account of our activities in 2013. We have opted for an integrated strategy aimed at creating value for our stakeholders. Our integrated annual report reflects this choice. We attach great value to transparency and an open dialogue with our stakeholders. This commitment serves as the basis of our report.

Financial and corporate social responsibility

The financial reporting is prepared 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 G 3.1) and the Electric Utilities Sector Supplement. We complied with the GRI G3 A+ application level in the 2013 reporting year. The complete GRI table can be found on our corporate website (alliander.com/en/alliander/investors/publications/index.htm)

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 its most important subsidiaries, namely Liander, Endinet and Liandon. The Employees section also contains information on Alliander AG and Stam, as explained in the footnotes.

Transparency Directive

Alliander applies the Transparency Directive and the relevant provisions from the Corporate Governance Code and the Decree

on Corporate Governance 2009. 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 contains a description of the most important characteristics of Alliander's risk management and control system.

Stakeholder-based report

Alliander's annual report is structured on the basis of three stakeholder groups: customers, employees and shareholders and investors. We are aware that our stakeholder base is broader, but this subdivision reflects our main objectives, performance indicators and results. In our previous annual report, our social themes and results were set out in a separate Society section. This information has now been integrated into the other sections of the report.

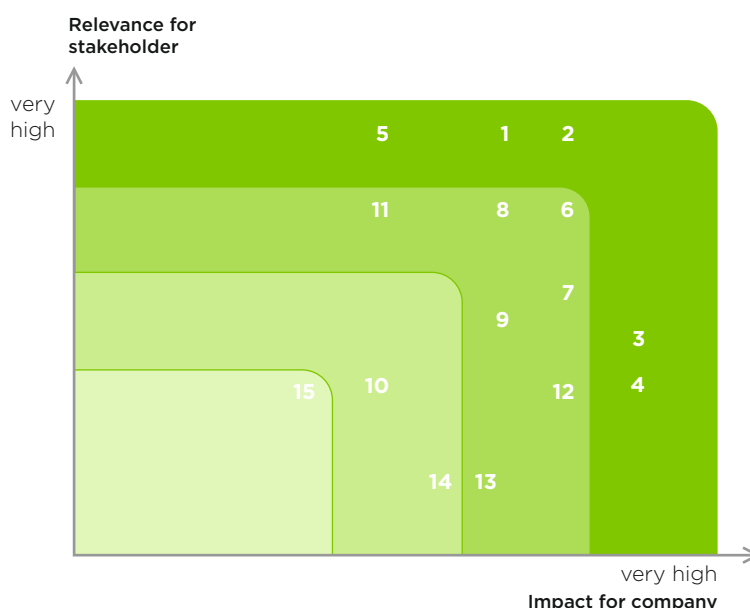
Main themes

Social trends and stakeholder dialogues form the basis for identifying the most important themes we report on. Our stakeholders assessed the impact of diverse social themes on the organisation in a 'materiality test'. Based on this

Top 15 themes for stakeholders

Theme

- 1 Safe working practices
- 2 Customer satisfaction
- 3 Regulation / tariffs
- 4 Energy transition
- 5 Supervisory Board / corporate governance
- 6 Reliability of supply
- 7 Energy saving
- 8 Training and development
- 9 Innovation
- 10 Transparency
- 11 CO₂ emissions
- 12 Solid rating
- 13 Access to external finance
- 14 Ageing in the labour market
- 15 Well-being at work



Click on the themes in the online report for a description and reference to more information in this annual report.



stakeholder input, we prioritised the 15 subjects they feel are most relevant and have the strongest impact. An explanation of the materiality test can be found in the Other information section.

In general, stakeholders selected themes relating to our business activities (such as safe working practices, customer satisfaction and reliability of supply) and our opportunities to distinguish ourselves in the future (such as energy transition, energy saving and innovation).

In dialogue with stakeholders

Alliander is convinced of the importance of a strategic and proactive dialogue with stakeholders – not just to exchange thoughts and viewpoints, but to obtain more insight into trends, underlying factors and needs that play a role in society and the political arena, as well as among suppliers, investors, customers and employees. We actively seek to connect with our stakeholders and are open to contributions or suggestions.

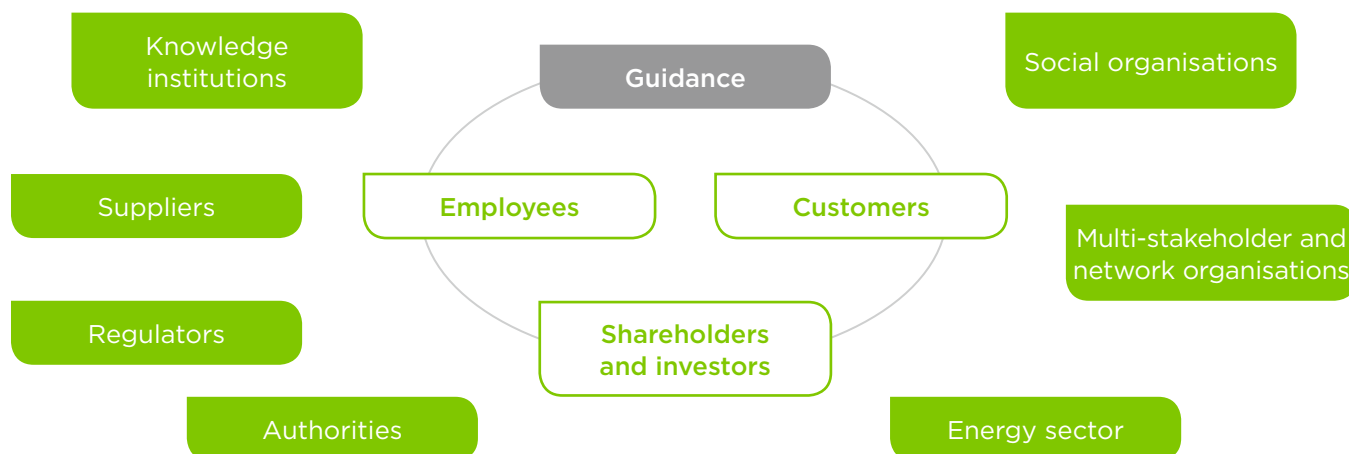
Based on high-impact themes, we regularly seek to identify suitable parties for Alliander's dialogue with stakeholders. Commitment, size, willingness to enter into dialogue and expertise are crucial considerations in this respect. We aim to find a common approach to issues, create support for initiatives, build trust and devise solutions with added value. Both for the short and the long term. We maintain a daily

dialogue with our customers about their energy demands, with our shareholders about promoting sustainable solutions, and with our employees about being an employer that matters. Together with all our stakeholders, we are moving forward to the energy supply of the future.

Contacts with stakeholders

The dialogue with stakeholders is conducted on an ad-hoc and structured basis. We organise customer panels, shareholder consultations and supplier days. We play an active role in knowledge and partner meetings and are a member of network organisations. We are in regular contact with politicians in the Netherlands and Europe, and also liaise with regulators. An overview of our contacts with stakeholders can be found in the Other information section.

In 2013, we organised several roundtable sessions with stakeholder representatives to discuss the manner in which Alliander pursues its social role and activities on the basis of the 2012 annual report. We received suggestions for the further development of the annual report, such as a more detailed explanation about regulation and our role in the energy transition. These suggestions have been largely incorporated into this annual report. Examples are the three cases describing the social value we create for stakeholders and Our story for 2013 which explains our strategic choices in the current energy transition.





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Value creation for our stakeholders

Alliander is investing heavily in activities that contribute to a better society. We aim to create social value for our stakeholders in various ways. In this annual report we use three cases to provide an integrated picture of how Alliander creates value.



Cases

Reliable energy	32
Step2Work	43
Smart meter	63





Strategy and policy



What is Alliander and what do we do for our stakeholders? In this section, we introduce our company, explain how the energy landscape is changing, outline our strategic objectives and highlight the results achieved in 2013.

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Profile



Alliander is an energy network group that comprises a variety of companies. Our energy networks deliver gas and electricity to large parts of the Netherlands. And our activities facilitate businesses, homes, transport and recreation. Alliander is helping to bring an open and sustainable energy market that much closer.

What Alliander does

The most important task of our network operators, Liander and Endinet, is to bring gas and electricity to consumers, businesses and institutions. This task involves keeping the energy networks in good condition, taking care of distribution and connecting customers to the energy networks. The network operators are also responsible for periodically providing meter and other data to market parties, such as energy providers and other energy services suppliers. In this way, we are helping to facilitate the free energy market.

We are working hard to build a future-proof and open network that can accommodate multiple energy providers. This network enables customers to choose their energy provider at any given moment: whether a local energy generator or a large energy company. We make data available, which help customers make

use of online energy services that help them save energy. We are thus giving customers more insight into and control over their energy consumption.

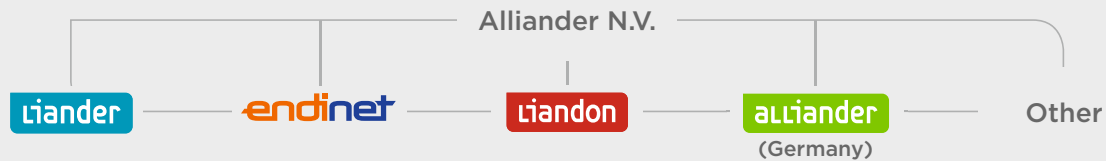
Alongside energy transportation, we also help customers resolve their complex energy issues. For instance, Liandon develops custom-built energy infrastructures.

New markets

The constant changes in the energy market are creating new needs. To support the energy ambitions of provinces, municipalities and other customers, Alliander is developing new business activities that help make our society more sustainable. In 2013, we launched initiatives in the field of sustainable area development, sustainable mobility and sustainable housing.



Organisation structure



Alliander N.V. is the holding company of our group companies, including the regional network operators Liander and Endinet, and subsidiaries. Liandon is Alliander's knowledge centre and is largely responsible for the technical innovations for the transportation and distribution of electricity and gas. In Germany, Alliander AG is responsible for network operation as well as for the construction and maintenance of public lighting and traffic control installations.

The shareholders of Alliander are Dutch provinces and municipalities. The largest shareholders are the provinces of Gelderland, Friesland and Noord-Holland and the municipality of Amsterdam. More information about the legal structure of Alliander can be found at alliander.com.

Network operation is Alliander's core activity. About 90% of our revenue comes from connections, meters and the distribution of energy by Liander and Endinet. The other 10% comes from Liandon's activities relating to the construction and maintenance of complex energy infrastructures, as well as other activities.

Regulated tariffs for network operation

The transport and connection services as well as the metering services for small users are the exclusive domain of network operators that are regulated by law. The tariffs for these services fall within tariff regulations aimed at ensuring a reliable, affordable and sustainable energy supply. The legislator has opted to regulate the tariffs on the basis of output control. This principle entails that the government remains on the sidelines, while the permitted tariff level of each network operator is determined by performance (delivered transport, delivered quality) rather than costs.

The Netherlands Authority for Consumers & Markets (ACM) implements the output control principle, applying the benchmark regulation system as laid down in a 'method decision'. The benchmark concerns the efficient cost level of the network operators and is set at the level of the average costs of all regional network operators. This benchmark is identical for each network operator and forms the basis for its permitted tariff level.

Deviation from this benchmark is only permitted on the grounds of specific regional circumstances, such as sufferance tax and/or special expansion investments. The benchmark system is designed to enable the sector to earn back the total costs (in the long term), including the reasonable return as set by ACM (WACC).

The ACM makes method decisions for a regulation period of at least three and at most five years. The expected development of the benchmark is estimated and translated into multi-year efficiency reductions, as laid down in 'x-factor decisions'. Each year, these x-factor reductions are used, in combination with the consumer price index movements, to calculate the maximum permitted tariffs (annual tariff decisions).

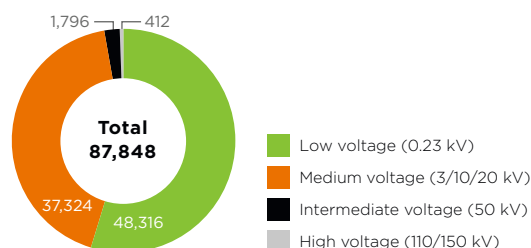
In 2013, a method decision was taken for the 2014 - 2016 period, resulting in substantial tariff reductions for these years.

**Network Operations Electricity**

3,063,000 Active electricity connections

29,000 New electricity connections

Size of electricity distribution network (in km)



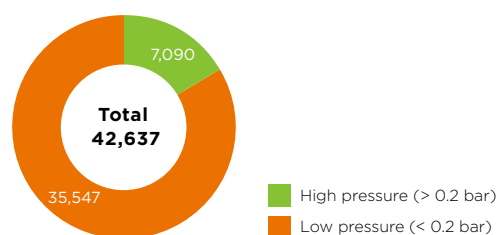
Transported electricity volume (GWh): 30,314

Network Operations Gas

2,649,000 Active gas connections

20,000 New gas connections

Size of gas distribution network (in km)

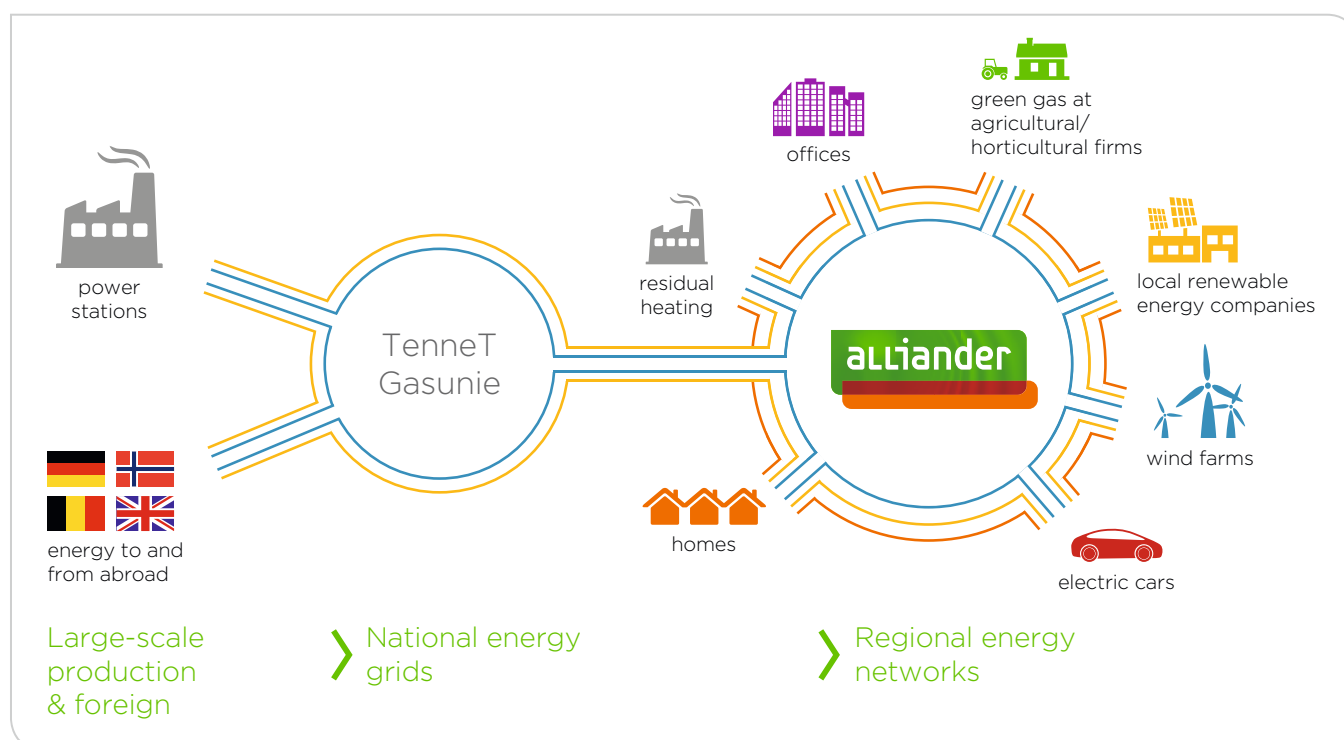
Transported gas volume (million m³): 7,000

Alliander in the energy chain

Alongside the power stations, more and more consumers and businesses are delivering self-generated energy to our energy networks. This is making the energy chain more dynamic. Alliander does not generate, but distributes energy in the region. We match the supply and demand of energy and distribute energy as efficiently as possible – for instance from wind turbines to households or to charging points for electric cars. We also engage in a dialogue with customers to ensure that our services continue to meet their needs, and enter into innovative partnerships.

Procurement chain responsibility

We use raw materials, products and services from all over the world for our work in the energy chain. And because we feel responsible for the social and ecological impact of our activities, we promote sustainability in the production chain of our suppliers. Alliander applies socially responsible procurement practices and requests suppliers to sign a Code of Conduct for Ethical and Fair Business Practices. You can read more about socially responsible procurement in the Shareholders and investors section.





Social value creation

Consumers and businesses must be able to count on energy 24/7. This tenet underlies our substantial investments in the expansion and reinforcement of our networks. Each and every day we work to give our customers safe and smooth access to energy, and we do so with the greatest possible care. We deal with the human resources, the available capital and the goods we use in a sustainable manner.

When performing our activities, we also view the future from a sustainable perspective. Our strategy is aimed at working closely with our stakeholders in order to realise the transition to renewable energy sources. Only in this way can we live up to our customers' new demands. We work together as a group to ensure that we identify the changes in time and translate these into our work.

We create social value for our stakeholders. Customers are not only able to purchase energy without interruption, but can also feed their self-generated energy into the network. We also help customers to implement energy saving measures that translate into lower energy bills. Our employees contribute their ideas, knowledge and expertise to help build our energy system of the future. We offer them every opportunity to develop themselves. In the regions of our shareholders we create employment and promote sustainability.

Our value creation process

Sources

Market developments
Stakeholder wishes
Connection to the energy chain
Employee expertise
Finance

Our mission

A better society
in the regions
we serve

Strategy

- 1 Continuously improving our performance on service, reliability of supply and costs.
- 2 Improving the control of energy flows and insight into energy usage.
- 3 Helping customers save energy and switch to renewable energy sources.

Our services

 Transportation of energy
 Development of (new) energy infrastructures
 New sustainability-related products and services

Value

Customers
• 24/7 access to energy
• Energy savings

Employees
• Safe working environment
• Scope for innovation
• Social contribution

Shareholders and investors
• Solid financial investment
• Responsible entrepreneurship
• Creation of employment in regions



Important market developments

The change in the energy market is a process extending over decades – but the effects are already visible today.

Cheap solar power is flowing into the Dutch energy market from Germany, where large numbers of solar panels are installed – a telling indication that new energy sources are having a major impact. On some days, German wind turbines and solar panel installations actually produce more electricity than the country needs. In the Netherlands, too, more and more consumers and businesses are generating their own renewable energy – with solar panels, wind turbines or combined heat and power (CHP) installations.

Alliander is keeping a close eye on market developments. We take these insights on board in our investment decisions and other strategic choices, such as the development of new products and services. The main market developments we currently identify for the short and longer term are:



Urbanisation

More and more people and businesses are migrating to the cities. This leads to changes in the required energy supply. In our service area, both extremes are visible: regional area expansion as well as depopulation. We are anticipating this by making appropriate investments in the network. In addition, we are working with businesses and government agencies on smart city concepts to make cities smarter and more sustainable.



Changing energy consumption

The use of electricity is set to increase in the future, partly due to the advent of electric mobility. Another development is that houses, buildings and industry are becoming increasingly energy-efficient. We are investing in electric mobility while also helping to make housing more sustainable.



Growth in decentralised energy generation

More and more consumers and businesses are generating their own electricity, heating and biogas, either individually or collectively (e.g. with neighbours or in cooperatives). We are adapting energy networks to cope with energy fed in from different sources.



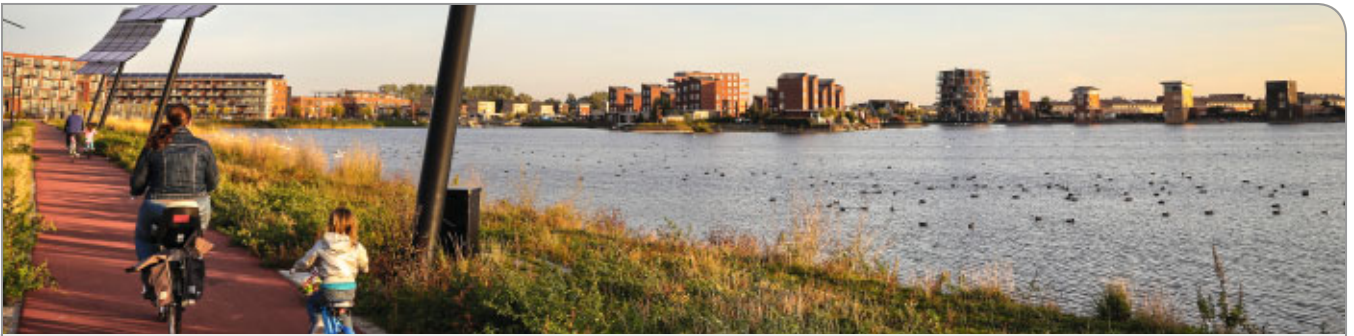
New energy storage opportunities

Innovations and new technologies are expanding the opportunities for electric energy storage. In future, businesses and households will be able to store renewably generated energy. Alliander is participating in research in this area.



Digitisation

Technological developments and IT enable us to control the energy in our networks in smarter ways. We are investing in new technologies that give customers more control over their own energy supply.



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 to renewable energy sources.

Mission, vision & strategy

Market developments show that the energy market is changing. It is crucial that energy remains affordable and sustainable, both now and in future.

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. Innovative 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 a facilitating role in these changes. We are helping to create an open energy market and support the sustainable energy choices of both 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.

Implementation of the strategy

Alliander's strategy describes how we aim to create long-term value for our stakeholders, whom we involve in our strategic choices. These choices are worked out in detail in our business plan. The Alliander year plan then translates the strategy into short-term objectives.

The business units within Alliander draw up their own business plans, outlining the contribution they make to our operational and social objectives. In the pursuit of social goals, they receive support in such areas as chain cooperation, stakeholder approach and dialogue, the quality of the ambitions, CSR embedment, actual results and transparency. This approach underpins the joined-up development of our organisation.

Control

Controlling and accounting for our performance in achieving our objectives forms part of our corporate governance structure and the variable remuneration policy. Our performance is monitored via the planning and control cycle, whereby the most important performance indicators for each stakeholder group are reported monthly and discussed with the Management Board. Progress on the implementation of our strategy, the year plan and the main risks are discussed with the Supervisory Board.



Long-term objectives for stakeholders

To support the implementation of our strategy, we have set ourselves long-term objectives. This helps us create value for our stakeholders, both today and tomorrow.

Customers



Employees



Shareholders and investors



Strategic objectives

The best service for today and tomorrow

Customers have a right to a reliable, high-quality and affordable energy service 24/7. We ensure that the energy supply meets local needs. More sustainable generation calls for additional investments in our networks. Together with customers, we look for the best energy solutions. We invest in innovations and improvements in order to operate the energy networks more efficiently.

Help with energy saving

Alliander helps customers with energy savings and questions about (sustainable) energy transportation. Our objective is to assist customers in achieving the national energy saving objectives.

Stimulate market developments towards a sustainable energy supply

We work with cooperatives, businesses and local government, and take part in sustainability initiatives in the field of energy. Together we find innovative solutions to policy, organisational and technological challenges. This increases the reliability of energy for customers and enables us to keep energy affordable.

Be a top-class employer

Alliander aims to be a top-class employer. An organisation where employees are confident in their professionalism and skills, enjoy their work and are proud of what they do. Working safely is paramount. The proportion of women in leadership positions at Alliander will grow year on year.

Develop future-oriented knowledge and competences

To attract talent, we invest in flexible working arrangements and contracts. Employees can continue to develop their personal and professional competences, and we offer scope for innovation. In addition, each year people at a distance from the labour market are offered more opportunities within our company.

Continuously optimise our performance

Alliander is a financially healthy company; a robust, socially and economically responsible investment. Together with our suppliers, we are working to create a climate-neutral company.

Solid results compatible with the regulated permitted return

A solid foundation enables us to achieve our business and social objectives. We focus on maintaining a solid A rating profile. Furthermore, it is our goal to have a reasonable return on capital, so that there is a good investment climate with sufficient incentives for investing in Alliander.



Objectives & results

Safety

Objectives 2013	Results 2013	Objectives 2014	Strategic objectives	Risks
LTIF (lost time injury frequency) The number of accidents leading to absenteeism decreases, so that the LTIF is 2.6 or lower.	 2.6 30 accidents leading to absenteeism occurred, resulting in an LTIF of 2.6	An LTIF of 2.4 or lower.	An LTIF of 2.0 or lower in 2017.	Occurrence of (major) incidents with consequences for the safety of both employees and customers.

Customers

Objectives 2013	Results 2013	Objectives 2014	Strategic objectives	Risks
Customer satisfaction¹ Customer satisfaction in consumer and business markets continues to outperform a benchmark of Dutch network operators.	Consumer market  91% 103% against benchmark Business market  85% 108% against benchmark	Customer satisfaction in consumer and business markets continues to outperform a benchmark of Dutch network operators.	Customer satisfaction in consumer and business markets continues to outperform a benchmark of Dutch network operators.	Reputation matters because of (dis)satisfied customers on the quality or costs of our business influence Alliander's reputation.
Electricity outage duration^{1,2} Maintain low outage duration. Objective for 2013 is ≤ 22 minutes.	 24 minutes	Maintain low outage duration. Objective for 2014 is ≤ 22 minutes.	Objective for low outage duration remains ≤ 22 minutes.	Occurrence of (major) incidents with consequences for both customers and our networks.
Number of postcode areas with more than five interruptions¹ Reduce the number of postcode areas with more than five interruptions to a maximum of 20.	 15 postcode areas	The number of postcode areas with more than five interruptions is a maximum of 18.	The number of postcode areas with more than five interruptions is a maximum of 15 in 2017.	Repeat interruptions influence Alliander's reputation.
Progress of 25 most important projects¹ We are aiming to complete 90% of the most important projects for 2013 before year-end.	 92% of the most important projects were fully completed.	In 2014, we again aim to complete 90% of the most important projects before year-end.		Delay in progress of important network investment projects leading to delay in risk mitigation in the networks.
Customers with insight into energy saving potential¹ Realise 3.4% energy savings by year-end 2013 at customers with a smart meter who participate in an energy saving pilot.	 4.8% Thanks to our energy saving initiatives, 4.8% savings were realised at customers with a smart meter who participated in an energy saving pilot.	Realise 3.4% energy savings by year-end 2014 at customers with a smart meter who participate in an energy saving pilot.	Helping with energy saving (achieving national energy saving objective).	Investments in smart metering don't bring expected benefits.
On-time completion of customer-initiated smart meter placements¹ Complete 95% of customer-initiated smart meter placements within the determined time-schedule.	 99.3% of all customer-initiated smart meter placements were completed on time.	This concerned a specific target for 2013.		

¹ Concerns Liander.

² The 2013 electricity outage duration of 24 minutes is based on low, mid and high voltage.
 The 2013 objective is based on low and mid voltage. Taking account of only low and mid voltage, the 2013 result was 23 minutes.



Employees

Objectives 2013	Results 2013	Objectives 2014	Strategic objectives	Risks
Employee survey score¹ Score of at least 8.0 in Towers Watson employee survey.	 8.2	In 2014 we aim for a score of 73 in the Great Place to Work employee survey.	Be a top-class employer: an innovative and successful company where we work on the development of future-oriented knowledge and competences.	Speed of changing knowledge and competences compared to changing surroundings.
Employee absenteeism Maximum absenteeism percentage of 4.0%.	 4.1%	Maximum absenteeism percentage of 4.0%.	Objective for maximum absenteeism percentage remains 4.0%.	Occurrence of large working load and reduced capacity of employees.
Women in leadership positions At least 21% of all leadership positions are filled by women.	 21%	At least 22% of all leadership positions are filled by women.	In 2020, at least 27% of all leadership positions are filled by women.	
People at a distance from the labour market Offer a job to 80 people at a distance from the labour market.	 80	Offer a job to 90 people at a distance from the labour market.	In 2020, together with our suppliers, we offer jobs to 100 people at a distance from the labour market.	Reputation at stakeholders.

Shareholders and investors

Objectives 2013	Results 2013	Objectives 2014	Strategic objectives	Risks
Retention of solid rating Maintain solid A rating profile.	S&P: AA-/A-1+/stable outlook Moody's: Aa3/P-1/stable outlook	Maintain solid A rating profile.	Maintain solid A rating profile.	Financial risks on financing, interest, currency, liquidity and fiscal position of Alliander.
FFO/net debt Objective: > 20%	FFO/net debt Actual: 38.7%	FFO/net debt Objective: > 20%	Continuously outperform the sector in terms of costs and operational excellence.	
Interest cover Objective: > 3.5	Interest cover Actual: 8.0	Interest cover Objective: > 3.5	Solid results compatible with the regulated permitted return.	
Net debt/(net debt + equity) Objective: < 60%	Net debt/(net debt + equity) Actual: 36.5%	Net debt/(net debt + equity) Objective: < 60%		
Solvency Objective: > 30%	Solvency Actual: 51.1%	Solvency Objective: > 30%		
Socially responsible procurement² At least 45% of our procurement is socially responsible.	 47%	At least 60% of our procurement is socially responsible.	In 2020, we made arrangements with at least 80% of our suppliers about the CO ₂ performance of their own operations and the products or services to be delivered to Alliander.	
CO₂ emissions from business operations³ The CO ₂ emissions are a maximum of 792 ktonnes.	 819 ktonnes	CO ₂ emissions are a maximum of 783 ktonnes.	Work on a climate-neutral company in 2023.	Additional costs caused by CO ₂ mitigation.

¹ The employee survey score concerns Alliander, excluding Endinet, Alliander AG and Stam.

² Concerns Alliander excluding Endinet.

³ The objective for 2013 amounted to 792 ktonnes. The 2013 result of 819 ktonnes is based on the most recent emission factors. Recalculated to the emission factors used for the objective, the result is 801 ktonnes.



Our results in 2013



In 2013, we made further steps towards adapting our services to the new energy demands in society. In this section, we highlight the results we achieved for our stakeholders.

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Our story for 2013

The energy landscape is changing rapidly. Solar panels, wind turbines and other renewable energy sources are becoming steadily more widespread in the Netherlands. While undoubtedly offering climate and environmental benefits, renewable energy also poses a challenge for the energy supply of the future. In 2013, we took further steps to make our energy infrastructure suitable for the new energy system.

On the path to a new energy system

A reliable energy supply is vital for society. This is particularly true now that we, as a society, are making increasing use of electrical applications, such as electric cars, heat pumps and, very soon, digitally-assisted home care. Our task, as a network company, is to ensure that energy is always available, 24 hours a day and 7 days a week.

In 2013, almost 100,000 solar panel installations were registered in our country, double the number in 2012. The rapid rise of decentralised generation presents us with new challenges. If no action is taken, we think that in 2023 'the lights will go out when the sun shines' – not because of a lack of power, but in fact a power overload. The expectation is that at certain times so much electricity will be generated from renewable sources, that it cannot be adequately processed. This is already a regular occurrence in Southern Germany. Due to the huge proliferation of solar panels and wind turbines in recent years, that region alone sometimes produces sufficient energy to power the whole of Germany. As a result, network operators are facing major challenges.

We are in the midst of a transition from fossil fuels to renewable energy. In this new system, the sun and wind have a growing influence on the availability of energy, and hence on the price. On very sunny or windy days the supply of renewable energy may exceed demand, resulting in low costs. However, when there is less sun or wind, electricity becomes more expensive. This is because in such conditions energy stations lie idle for long periods, making traditional energy generation more expensive on average.

Energy sector and customers join forces

The rapid advance of renewable energy generation makes different demands on the energy system and its management. Customers must therefore be prepared for fluctuating prices. We foresee a change in society, where customers will use more

energy when it is generated from renewable and cheap sources and less on days when energy is more expensive. This opens up opportunities for entrepreneurs and new creativity will be unlocked. Horticultural firms already make money by generating their own energy. And other energy-intensive sectors, such as industry, are likely to follow suit. In the new energy system we, as a sector, must work closely with customers. Energy-intensive companies can contribute by helping to balance the energy flows. They may also be able to play a role in energy storage.

Our initiatives in 2013

For Alliander, the new energy system implies that we must adjust our services and energy infrastructure to the new demands in society. Our customers of today and tomorrow demand reliable energy transportation and good services at an affordable price. In 2013, we took fresh steps towards growth. We expanded our range of services, and launched programmes aimed at enhancing the efficiency of our business processes and reducing costs. The initial results are visible in our lower indirect costs and trends in corporate accommodation. In the coming years, Alliander will concentrate its operations at a limited number of central locations.

For customers: the best services for today and tomorrow

In the past year, we continued our efforts to raise customer satisfaction. Besides providing customers with even better information, our teams of technicians, engineers and IT specialists also worked tirelessly to keep the energy networks in optimal condition and prepare them for the future. New technology led to better incident prevention and faster localisation of faults. As a result, the outage duration remained low. The average electricity outage duration at Liander and Endinet was 23.4 minutes in 2013. Our energy networks rank among the most reliable in the world, with an availability of 99.99%.



In 2013, we spent € 762 million on maintenance, replacement and construction of energy infrastructure. We have noticed that the public space is coming under mounting pressure. Conflicts of interest between municipalities, residents and authorities about landscape planning are becoming more common. Typical areas of friction include the placement of transformer stations, the construction of wind farms and the scheduling of underground work. Better cooperation between all parties is imperative in order to achieve good landscape planning, while respecting everyone's interests and wishes.

Households, businesses and municipalities are keen to use energy smartly and sustainably. We have installed more than 500,000 smart meters at customers, giving them better insight into their energy consumption. Another focus area was the digitisation of our energy networks. By installing smart meters, sensors and IT solutions, we are creating intelligent energy networks. These give us an increasingly accurate picture of how energy flows through the networks. We also invested in cyber security, which has become an indispensable part of our efforts to protect the safety and reliability of our energy networks in the new world of digitisation.

For employees: an innovative, successful company

Qualified employees enable us to facilitate changes in the energy market. It is therefore crucial to make maximum use of our employees' talent potential. A strategic staff plan was drawn up in 2013 to obtain better insight into our future activities and the required competences. Ageing and the resulting departure of technical staff is a critical challenge for the coming years. In 2013, more than 60 new technicians were recruited. Over the next two years, they will gain vital experience and be trained into fully-fledged professionals. In view of the more specialised skills required from our employees in the present-day energy environment, we are engaged in knowledge development initiatives together with higher educational institutions.



Our employees are serious about their personal development and Alliander supports them with professional courses and training programmes to help them develop their skills. No less than 14.6% of employees progressed to a new position in 2013. The well-being and diversity of our staff was another focus area, as this serves to enhance performance and promote innovation. Finally, people at a disadvantage in the labour market can also count on good job opportunities and pleasant working conditions at Alliander.

In 2013, we offered 80 people a temporary job and training. Of these, 24 were engaged by one of our partners, with whom we increasingly make corporate social responsibility arrangements.

For shareholders and investors: a financially and socially solid company

Clearly, a strong financial basis is a precondition to achieve our social mission of providing a reliable energy supply. In 2013, Alliander posted a solid profit after tax of € 288 million. The dividend payment to the shareholders amounts to € 125 million. This means that we are living up to our ambition



Safety comes first

Working safely remains paramount in all our activities. In 2013, there were two serious work-related accidents involving Alliander employees. We know better than anyone that working with gas and electricity can be dangerous, but these accidents still came as a shock. We carried out an investigation into the causes and tightened up our safety measures even further in order to minimise the risk of such incidents recurring in the future.

Read more in the section What we have learned



of being a robust and socially and economically responsible investment. To retain good access to the capital and money markets, it is important for financiers to have insight into Alliander's creditworthiness. We are entirely transparent about this, including in our reporting. In 2013, S&P raised our credit rating to AA-, with a stable outlook for the coming years.

To reduce the organisation's energy costs and make a positive contribution to our living environment, we are striving to reduce our CO₂ emissions. In 2013, the construction of an innovative energy-neutral office building in Duiven got under way. We also made arrangements about responsible procurement with more than half of our suppliers. Chain responsibility is now an indispensable aspect of our business processes.

Responding to changing market conditions

Alliander supports sustainable initiatives that contribute to a reliable, affordable and clean energy supply. We are aware of the opportunities and threats we face in this connection. As an organisation, we must respond to technological developments and changing market conditions. But we must also always weigh up the interests of our stakeholders. Three developments that we are currently anticipating are: sustainable housing, sustainable area development and electric mobility. In 2013, we launched new business activities aimed at giving municipalities, housing associations and consumers concrete help in their efforts to use energy sustainably.

Where are our opportunities and challenges?



Strengths:

- Customer satisfaction
- Security of energy supply
- Technical expertise
- Good employment practices
- Solid credit rating



Weaknesses:

- Limited synergy due to fragmented service area
- CO₂ emissions
- Speed in adaptability of business processes

Opportunities:

- Investing in new markets, such as sustainable area development, electric mobility and sustainable housing
- Investing in telecom
- Asset swapping and consolidation
- Cooperation with municipalities

Threats:

- Pace of the energy transition
- Changes in law and regulation
- Complex spatial planning issues that impede the progress of network investment projects





The climate and energy challenges of our times also call for innovation. In 2013, we invested € 15 million in innovation and new technology in order to support the energy ambitions of our customers. By taking part in (practical) studies and tests, we try to avoid incurring unnecessary costs for expanding the electricity network. We experiment with systems for matching energy supply and demand.

Outlook

As noted, we operate in a rapidly-evolving energy market with a strong focus on sustainability. These changes in the energy system call for investment activity. At the same time, the tariffs for performing our network operation tasks are under pressure. Due to the method decisions made by the Netherlands Authority for Consumers & Markets (ACM) for the 2014 - 2016 period, we will see a considerable decrease in revenue in the coming years. This is good news for our customers, but makes it more difficult for us to maintain our investments at the current level. The regulator is of the opinion that the current low interest rates justify a lower return on capital for the network operators. However, short-term finance is not suitable for companies that have long depreciation and payback periods for investments.

High investments, for example in IT, demand for larger scale. Therefore, Alliander seeks possibilities to grow, to keep the future energy supply reliable and payable for our customers.

In Germany, we have seen how rapidly a new energy system can be developed, and the far-reaching implications for the operation of energy networks. As we move further along the road to 2023, we must prepare the infrastructure for new energy sources. Alliander is working with other parties to explore new concepts and technologies, including enhanced energy storage. The transition to a sustainable energy system is no longer a matter for technicians or energy producers alone. New partnerships are necessary, so that we can continue shaping and innovating our energy future together – and build an effective and efficient energy system for a sustainable society.

Peter Molengraaf
Mark van Lieshout

Alliander Management Board



Efficiency in business processes

In 2013, various programmes were started up to further increase the efficiency of our operational activities. These programmes must help us to achieve structural improvements. One of the objectives is to make our processes more efficient and thus improve our performance for customers.

Read more in the Employees section



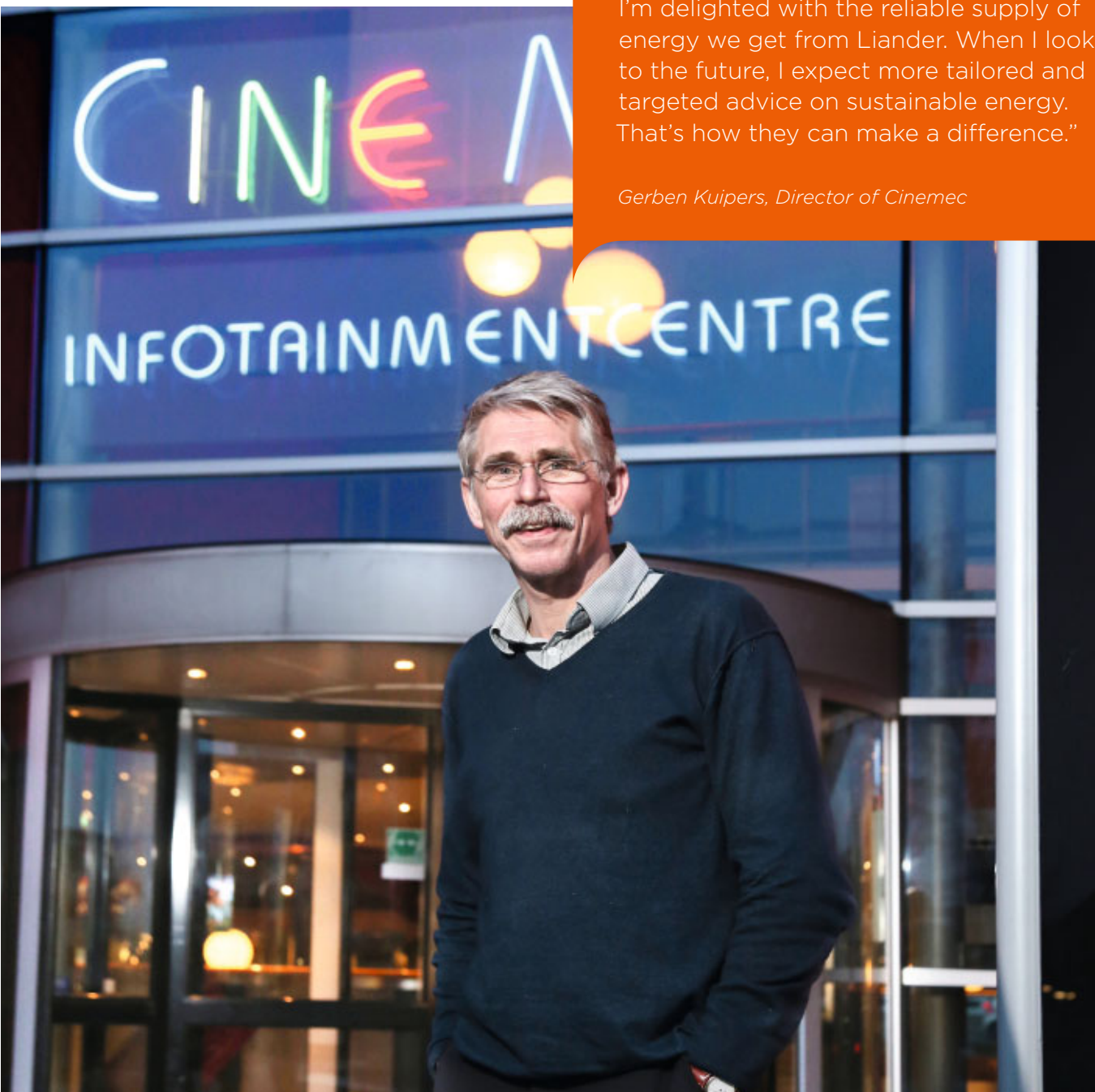
One customer's opinion

Millions of households and businesses count on power and gas, and Cinemec is no exception. For this cinema and conference centre in Ede, a reliable energy supply is essential.

"We offer guests all sorts of entertainment: cinema, events and conferences. This winter we built an ice rink right in front of the complex. Its concept is unique and sustainable: instead of heavily-polluting diesel generators, we use electricity. And the power for the ice rink produces heat for the cinema.

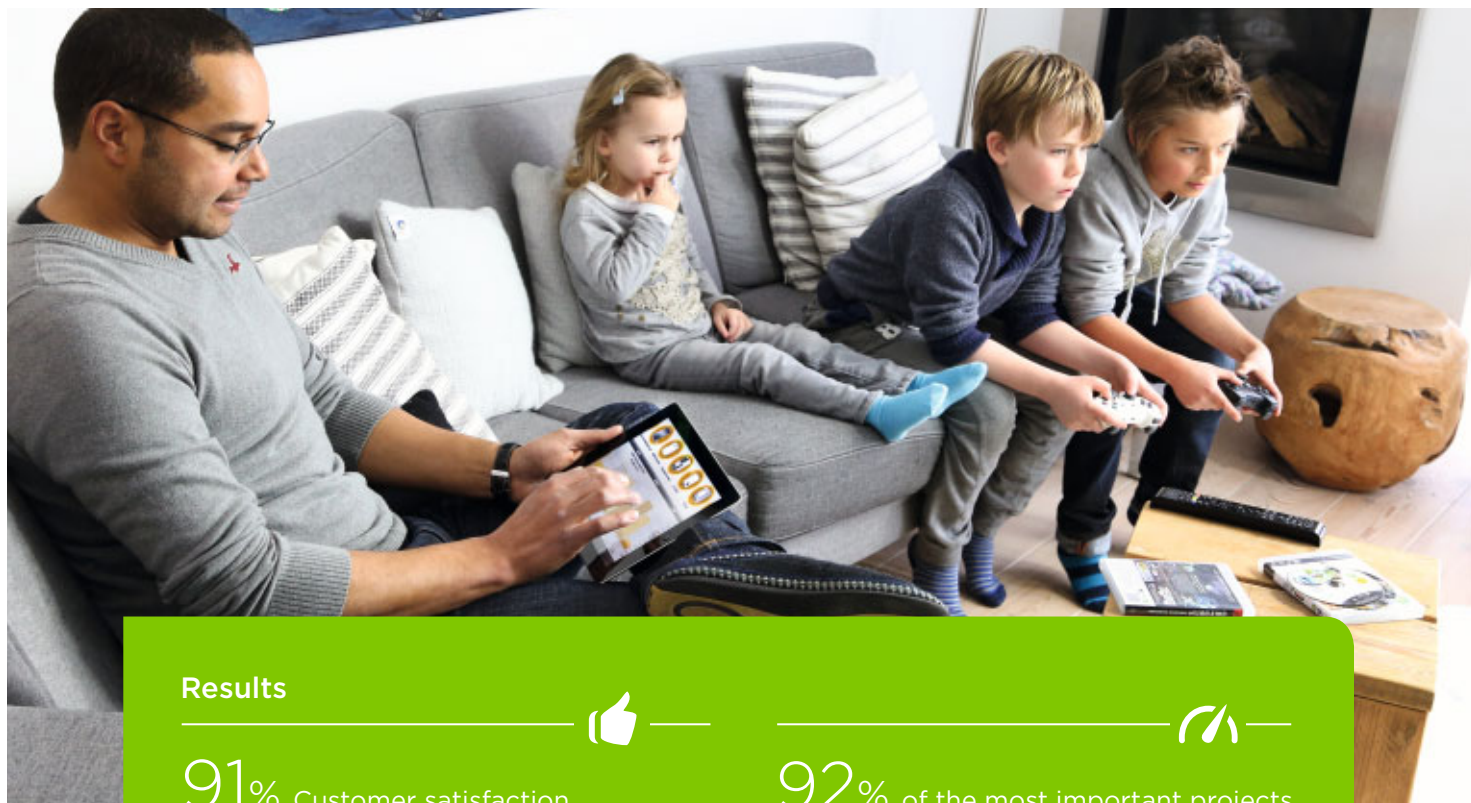
I'm delighted with the reliable supply of energy we get from Liander. When I look to the future, I expect more tailored and targeted advice on sustainable energy. That's how they can make a difference."

Gerben Kuipers, Director of Cinemec





Customers



Results

91% Customer satisfaction
consumer market



92% of the most important projects
were fully completed



85% Customer satisfaction
business market



15 postcode areas
with more than 5 interruptions during the year



99.3%
of all customer-initiated smart meter
placements completed on time



4.8% energy savings realised
by customers with a smart meter who participated
in an energy saving pilot



24.0 Electricity outage duration
per customer in minutes



Our customers take the availability of power and gas for granted. At home, at work and in public areas. It is simply always there, thanks to the daily efforts of our network operators Liander and Endinet. And because we engage in a continuous dialogue with customers about their energy demands, we can deliver the best service and adapt our energy networks in time to the needs of sustainable energy.



The best service 24/7

Customers want to be able to use power and gas any time of day or night. And rightly so. That is why Liander and Endinet work continuously to keep the energy networks operating reliably and safely, 24/7. In 2013, we spent € 762 million on maintaining, expanding and reinforcing the networks. This is part of our commitment to deliver the best service to consumers and business customers.

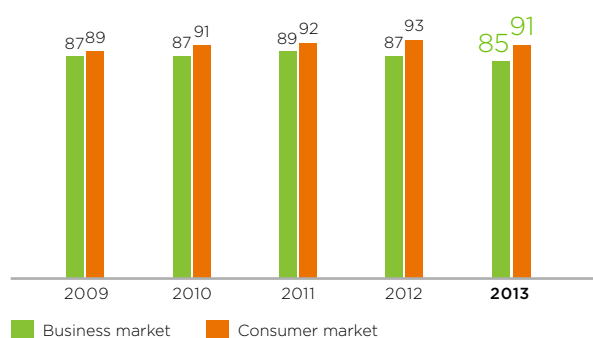
Service

Our customers remained satisfied with our service in the year under review. In 2012 and 2013, consumers and business customers gave us higher satisfaction ratings than other network operators (2013 scores were 103% and 108%, respectively). Nevertheless, the score was lower than in 2012. Hence we will continue our efforts to improve our services

in the coming years. Speed and communication are the key areas where customers feel improvement is possible. We have therefore launched a programme to enhance the efficiency of our processes, and are seeking to improve the supply of information to customers.

Customer satisfaction trend^{1,2}

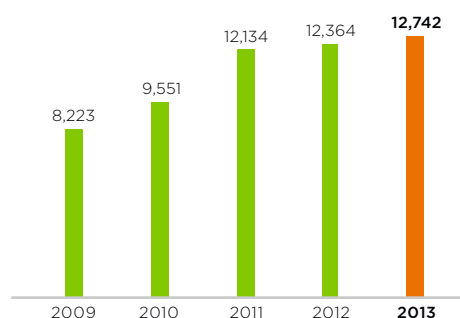
in percentages



¹ Liander customer satisfaction levels (measurement in fourth quarter).

² Consumer market: Electricity capacity connections $\leq 3 \times 80$ ampere and gas consumption $\leq 170,000$ m³/year.
Business market: Electricity capacity connection $> 3 \times 80$ ampere and/or gas consumption $> 170,000$ m³/year.

Disconnections¹



¹ The number of disconnections (2009 figure excludes Endinet, which was acquired in 2010) relates to the number of disconnected properties due to e.g. termination of supply, payment arrears and fraud.



Preventing energy disconnection

When a contract with the energy supplier is terminated, network operators are obliged to disconnect the customer. This can happen because of payment arrears, for instance. In 2013, Liander and Endinet were obliged to disconnect 12,742 customers from power and gas. But disconnection is not immediate. Customers first receive two letters warning them that they will be disconnected because of their failure to pay for the energy they are receiving. Wherever possible, Liander also helps customers to obtain debt assistance in order to avoid disconnections.



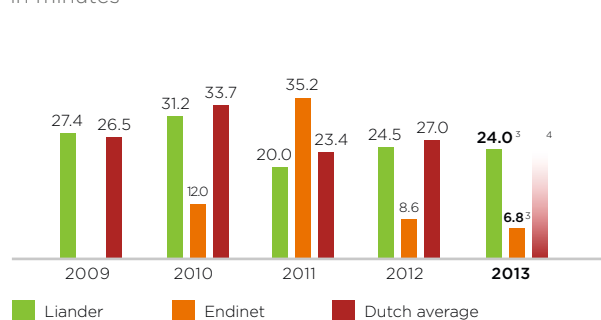
People throughout society are insisting that we help them faster and provide tailor-made solutions. The demand for online services is growing and in an effort to improve our customers' experience, we want to make our services more customer-focused and personal. Starting with their initial connection to our electricity and gas networks. Liander and Endinet are committed to offering the best services by quickly and smoothly connecting all new customers, from households to data centres, so they can have immediate access to power and gas. Our online services are also being steadily expanded. In 2013, further steps were made to provide customers with better and faster information when interruptions occur. In the case of power failures, Liander customers receive online information about the status, estimated resolution time and streets affected.

Following a change in the law, the supplier model was introduced in August 2013. This has changed the nature of our direct contact with consumers and small business users. The energy supplier is now the first point of contact for questions about the energy bill and meter readings. As network operators, Liander and Endinet remain the first point of contact for questions about connections, interruptions and maintenance.

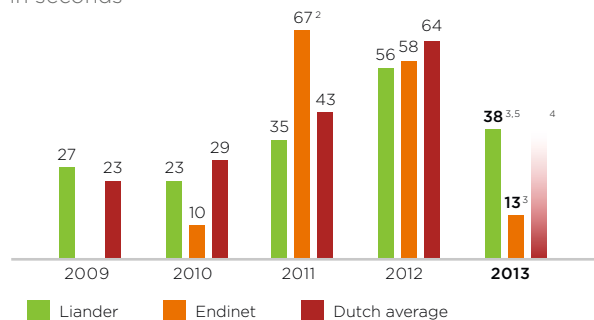
Energy reliability

Though the energy network has a reliability of 99.99%, interruptions can occur. In 2013, the number of minutes that Liander and Endinet customers were left without power due to interruptions fell to 23.4 minutes on average (2012: 23.9 minutes). In 2013, customers were without gas for 34 seconds on average; this was 22 seconds less than in 2012.

Annual electricity outage duration¹
in minutes

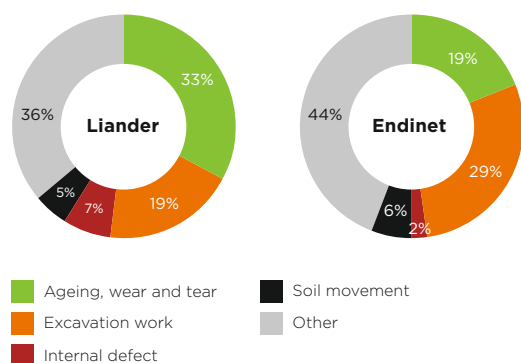


Annual gas outage duration¹
in seconds

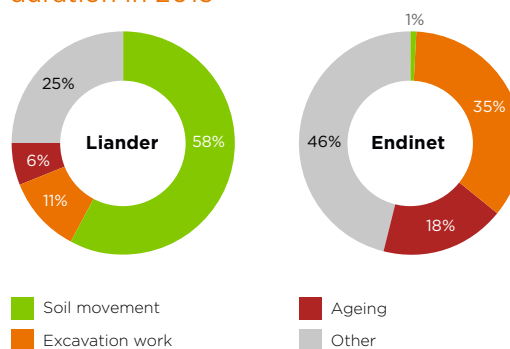


- 1 Annual outage duration (2009 excludes Endinet because of acquisition in 2010), defined as average outage duration per connection (SAIDI = System Average Interruption Duration Index).
- 2 57 seconds of the gas outage duration for Endinet in 2011 was caused by a heavy storm in Vught on 29 June 2011. Without this interruption, the outage duration in 2011 would have been 10 seconds.
- 3 The outage duration for Liander and Endinet in 2013 is based on provisional data. At the time of preparing this report, the data had not yet been conclusively established by the national consultative committee of network operators. The definitive outage duration data 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 54% of the gas outage duration for Liander was caused by a major interruption in Ede, where water got into the mains.

Causes of electricity outage duration in 2013



Causes of gas outage duration in 2013





The number of postcode areas where customers were confronted with more than five interruptions rose from 10 to 15 in 2013. We aim to prevent supply interruptions, as these cause customers major inconvenience and cost society dearly. You can read more about this in the case about the impact of interruptions on society.

To keep the reliability of the energy supply up to standard, we continuously assess from a risk perspective what investment projects need to be carried out in a given year. The early replacement of weaker connections in the network is a case in point. In 2010, a plan was drawn up with the regulator for the step-by-step replacement of brittle gas pipes. In 2013, we replaced 238 kilometres of these pipes. Our work is going according to plan. Though 92% of the most important projects were fully completed in 2013, the progress of several other large investment projects remained behind schedule. This was mainly due to lengthy procedures and delayed decision-making. The delays had no negative safety implications and projects were rescheduled in consultation with stakeholders. Together with other parties, including customers and municipalities, we are continuing to work on the required renewal of the network.

We continuously assess the mandatory and available capacity of the networks and make an estimate of future needs. This helps us anticipate developments. Every two years we report on our actions to the regulators in Quality and Capacity Documents (QCDs). Over the coming years we expect an increase in electricity consumption as well as strong growth in

decentralised generation. At present, the construction of wind farms and the rising number of residential solar panels are the most visible manifestations of the steady progress towards renewable sources of energy. In 2013, 28,000 customers started generating their own energy with solar panels, an increase of 137% compared to 2012. The popularity of solar energy is growing particularly rapidly among consumers.

Energy safety

The use of power and gas can give rise to dangerous situations. As an organisation, we keep a watchful eye on the safety of customers, employees and our surroundings. As part of this effort, we have drawn our customers' attention to the energy safety website, energieveilig.nl.

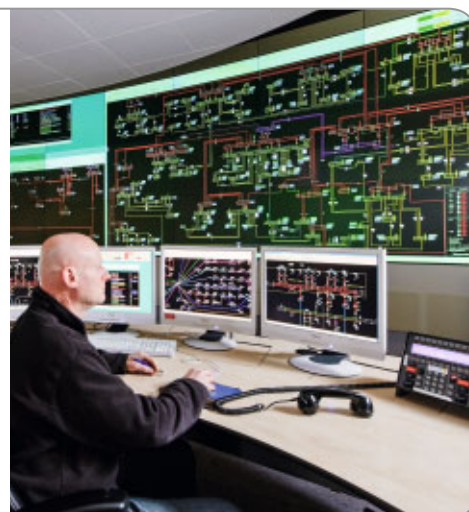
One priority in 2013 concerned the removal of asbestos from our buildings. Spaces were assessed and made safe by eliminating this hazardous material. We tightened up the safety procedures and trained employees to carry out asbestos assessments. This makes us less dependent on external parties, saves costs and improves safety. The expectation is that in 2014, one-third of the spaces will be assessed by our own employees.

The growing role of technology in the energy network also calls for additional safety measures. Alliander has started to set up a wireless telecommunication network. This network will become an important link in the digital communication with various applications in the energy network, such as smart meters and intelligent medium voltage units.

Our performance benchmark

We look critically at our own performance and comparisons with other network operators are helpful in this connection. These comparisons indicate that our satisfaction rating for consumer services is above the benchmark (103%). Our energy networks are also highly reliable. In 2013, the electricity outage duration was lower than the national average in 2012*. Based on the average weighted connection and transport tariffs in the sector, our gas tariff is just above average. Our electricity tariff is the second lowest.

* The Dutch average for electricity outage duration in 2013 was not yet known when this annual report was published.





Help with energy saving

A growing group of customers are warming to the idea of saving energy and some have already taken initiatives. The aim is dual: cut costs and contribute to a better environment. Our network operators are helping them achieve these objectives. In 2013 we offered customers the smart meter, with handy applications providing insight into their energy saving potential.

Saving energy is easier for customers if they have more information about their energy consumption. The smart meter, used in combination with handy apps and energy management systems, enables customers to monitor their current energy consumption and gain better insight into how much energy they can save. In 2013, our energy saving initiatives allowed a group of customers to reduce their energy consumption by 4.8%. Liander and Endinet placed more than 224,000 smart meters at customers during the year, including 5,300 at the customer's own request. No less than 99% of these customer-initiated smart meter placements were completed on time. Our plan is to have the new meter installed at all of our customers by 2020. To achieve this, a programme for rolling out smart meters has been developed in collaboration with the other network operators and the central government. Alliander's annual investment in smart meters is expected to amount to € 60 to € 100 million up to 2020.

Tailored and targeted support

Though the reasons for saving energy are almost identical, different customer groups require different kinds of support. Households want to know how they can save energy, the capital expenditure required and the monetary benefits to be achieved. Meanwhile, horticultural businesses see financial opportunities in solar energy, thermal heating and bio-energy. And municipalities are seeking cooperation with the network operator in order to fulfil their sustainability targets and ambitions. Local energy companies and cooperatives are asking for legal, financial-economic and technical advice to help make their organisation a success. We aim to provide all parties with the support they need.

Consumers

In 2013, we developed new initiatives, often in collaboration with partners, to provide consumers with online insight into ways to save energy and generate their own power. Based on a survey into our customers' needs, we defined our ambitions for the coming years in the field of energy information services. Examples of new initiatives in 2013 are:

- The liander.nl/mijnhuismijnenergie website, which offers consumers information on energy in and around the home. Highlighted topics include energy saving, self-generation, electric transport and energy purchasing. The website also enables Dutch consumers to see how much energy they consume compared to similar households, decide whether solar panels are an interesting option for their home, and find out where charging poles are located in their neighbourhood. Consumer interviews show that the target

group regards the platform as a valuable addition to the existing information sources.

- 'Goeie Peer', an online pilot offering customers an opportunity to earn sustainable products by saving energy. Thanks to this pilot, which was initiated by the environmental organisation Natuur en Milieu and network operators Enexis and Liander, 750 participants were made more aware of their energy consumption.
- The langlevejehuis.nl website, which makes sustainability fun and manageable for many of our homeowner customers, while showing that this can be realised without compromising comfort. The website was set up by the publishing house Sanoma in cooperation with various parties, including Liander.

Business customers

Many businesses and municipalities have had energy saving and sustainable generation on their agendas for a while now. Business customers approach the network operators for tailor-made support to realise their energy ambitions. We, in turn, offer online access to specific information and customised support, while also unlocking a network of partners. Some examples of our initiatives in 2013 are:

- Sustainable energy at Greenport Venlo, which is seeking to maximise its water, energy and heating efficiency. Horticultural businesses use thermal heating in their greenhouses, while other businesses can use the residual heating to keep their produce at the right temperature. Together with such partners as Arcadis and Greenchoice, Alliander has set up Etriplus, an energy company that is committed to supporting the development of sustainable projects among local and future entrepreneurs.
- Cooperation with the Province of Gelderland to achieve its objective of becoming a climate-neutral province in 2050. In 2013, Liander provided every municipality in the province with 'Energie in Beeld', an energy monitoring tool that shows where energy is consumed and generated.

Local renewable energy businesses

We see the advent of local energy businesses as an important development in the energy transition. Our service area is home to over 100 collectives, where customers jointly produce energy or engage in energy saving initiatives. Liander helps them with information, connections and metering services. In 2013 we introduced:

- A support and advice point called 'SAMEN' to help people who want to start up a renewable energy business. This is an initiative of Liander and Hier Klimaatbureau.



- Energieaandeel.nl, a platform that helps clarify everyone's share in collectively generated energy. This is handy for collective wind turbines, for instance, or for situations where solar panels have been placed on the roof of a municipal building, commercial building or school. At the end of 2013, the platform had about 100 participants. In 2014, the site will also offer energy generation forecasts in combination with sunshine duration and/or wind profiles.

How local renewable energy businesses will develop is something we cannot predict. But we are keeping track of developments in the market to facilitate their energy efforts as best we can. Together, we are helping to make the energy supply more sustainable at lower social costs.

Stimulate market developments towards a sustainable energy supply

Alliander is taking stock of developments in the energy market and the role that we, as a network operator, can play in accelerating sustainability in society. While the reliability of the energy supply remains our paramount concern, sustainability and flexibility are also increasingly important.

Solar panels, sustainable heating installations and electric cars are making strong headway. Though still relatively small, the share of renewable energy may rise rapidly on the back of energy ambitions or new affordable technology. To fit the growing supply of renewables into our energy systems, we must adapt our networks and our consumer and business services. This calls for an integrated approach by various parties – from white goods manufacturers to ICT developers and civil society organisations. Together we can save energy and achieve sustainability.

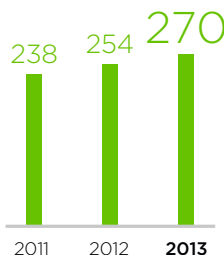
The 'open data' approach is one way in which Liander is encouraging the development of innovative applications, in combination with the smart meter. Reliable metering data that cannot be traced back to individuals are made publicly available to help market parties devise smart energy solutions. The 'open data' formula helps us to be transparent about the data we collect, to stimulate innovation and to obtain feedback on inaccuracies in the data. Together with expert parties such as Delft University of Technology and Wageningen University, we are continuing to refine the open data approach, an initiative that is attracting global interest.

Growth in feed-in installations

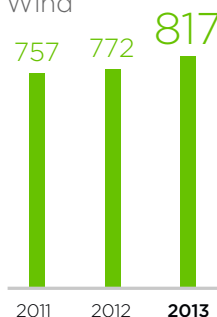
(number of installations)



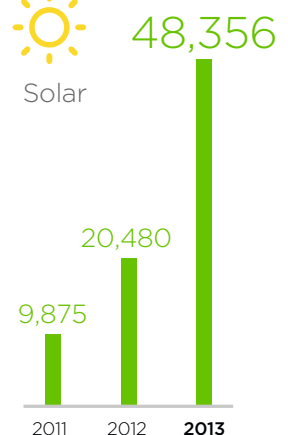
Biogas



Wind



Solar





Investing in growth

To underpin the energy ambitions of provinces, municipalities and other customers, Alliander is developing new business operations. In 2013, we invested € 6.2 million in new operations, with a focus on electric mobility, sustainable area development and sustainable housing.

Electric mobility

Electric car drivers want access to reliable and affordable charging services wherever they are – at home, at work and on the road. Alliander is therefore investing in smart charging solutions and services for the Dutch, Belgian and German markets, and building a charging infrastructure across Europe. Together with the automotive industry, government agencies, service providers and network operators, we are developing uniform standards for electricity connections and payment methods. We are also contributing to the Dutch sustainability objectives, such as reducing CO₂ emissions and achieving sustainable urban transport.

Sustainable area development

The Netherlands has great potential for sustainable area development. We must take advantage of this. Together with businesses, government agencies and end users, we draw up area vision documents, outlining a shared and integrated energy solution for the specific area. Alliander is working on the development and commercial operation of various energy projects, such as heating and cooling networks and biogas. The aim is to take optimal advantage of locally available energy sources.

Sustainable housing

Since the onset of the economic crisis, there has been increased interest in energy saving measures. Nevertheless, the energy saving market is still struggling to get off the ground. Alliander is taking the lead in this development. We want to bring parties together and present residents with cost-effective offers for making their homes more sustainable. These offers include insulation, high-efficiency boilers, solar boilers and renewable energy generation.

Outlook for 2014

The statutory tariffs for network operations have been lowered with effect from 2014. This will save the average household about 4% on their energy bill, which works out at a few euros per month. While it is good news for our customers, this makes it harder for us to maintain the current level of investment – precisely at a time when investments in the energy network are vital to facilitate the envisaged transition to more sustainable energy.

To continue guaranteeing the reliability of energy, we invest continuously in our networks. The gross investments in the networks for 2014 will amount to about € 480 million, including the investments in smart meters. In addition, we are working on technological innovations to minimise the occurrence of outages. Up-to-date data from the network allow us to track down possible faults, so that we can resolve interruptions faster or even prevent them altogether.

In 2014, market developments and changing customer needs will play an even more important role in our product and service mix as well as in our network investment plans. New propositions will be developed for our customers and existing products and services will be adjusted or improved. One example is the introduction of a more efficient quotation process, enabling us to handle customer applications more

quickly. In line with our customers' expectations, we are also reinforcing our online service. Via mijnaansluiting.nl, a website that was set up on the initiative of the joint network operators, customers will be able to submit online applications to set up gas, electricity, water, cable and telephony service from the autumn of 2014. In future, they will also be able to keep track of the status of their applications and make online appointments with a Liander or Endinet engineer.

In 2014, partnerships will be continued in order to help customers save energy and to contribute to a more sustainable energy supply. For instance, we partner with the Homeowners' Association (Vereniging Eigen Huis) on our initiatives to make houses and businesses more sustainable, varying from energy saving advice to insulation and solar panels.



Cases

**Alliander's contribution
to reliability of supply****Investments in reliability
of supply
(2013)**

Replacement (million)

€ 223

Expansion (million)

€ 194

Total investment (million)

€ 417

Reliable energy

Whether we want a hot shower or a cup of coffee, energy is an essential part of our daily lives. In today's society, access to energy is so commonplace that customers count on it around the clock. With 99.99% availability, our energy network is one of the most dependable in the world.

Alliander does everything possible to guarantee this continuous supply, precisely because the availability of energy is both normal and essential. These unstinting efforts create value for our customers. But what exactly does that value look like? And how far can Alliander go in its ambition to achieve maximum reliability of supply?

Our customers benefit from the highest possible level of reliability. Energy is a primary need and contributes to our prosperity and well-being. The network we have in the Netherlands is extremely dependable, which is good for our business climate. Many businesses choose to locate in our country precisely because of its excellent and reliable infrastructure (the data centres in the Amsterdam area are just



one example). In addition, we are one of the few countries in the world where most customers can safely operate without emergency back-up facilities.

Interruptions to our access to energy invariably have a social impact. Losses are incurred immediately. Various studies show that power outages cause loss of revenue to all customers, from consumers to industrial corporations. The social costs of interruptions are estimated at about € 8 per year for every household and € 79 for every business. And this does not even include the costs associated with social unrest or unsafe situations that can result from energy outages. Households and businesses would much rather have no (or, at least, the fewest possible) power interruptions than compensation for the resulting loss or damage and inconvenience.

Reliability of supply demands investments

Clearly, therefore, Alliander's task is to ensure that access to energy is assured at all times. This demands ongoing investments in the network. Think, for instance, of the replacement of obsolete pipes with new better-quality connections. Or the construction of rings of electricity, so that energy can be easily re-routed when an interruption occurs anywhere in the network. Investments are also made to reduce the causes of outages, such as in excavation damage prevention. In 2013, Alliander invested € 417 million in the replacement and expansion of the energy networks. These investments jointly help minimise the number of interruptions.

High reliability-of-supply ambitions

In 2013, the number of minutes that Liander and Endinet customers lost power due to interruptions decreased to an average of 23.4 minutes (2012: 23.9 minutes). Alliander has the ambition to reduce the outage duration even further.

Pushing social benefits to the limit

However, there also limits to the reliability of supply. When making choices, we always seek the social optimum, i.e. the optimum ratio between the required investments and the social benefits – because after a certain point, the total social benefit no longer outweighs the required investments.

Alliander continuously asks the key question: what investments are still profitable given the total social costs? Replacing the entire network would be unprofitable, meaning that such a huge investment seems unjustified. We look at the biggest sources of interruptions and the possible solutions. Our Quality and Capacity Documents identify the most significant asset risks and indicate the investments we will prioritise in the coming years to safeguard maximum access to energy. Special attention is devoted to regions where power outages are above average. In this way, Alliander aims to achieve a careful balance between investments and improvement of the reliability of the energy supply.



Noteworthy power interruptions

Two noteworthy power interruptions occurred in our service area last year. A storm on 28 October caused no fewer than 23 interruptions in Liander's networks in Friesland, partly due to trees toppling and pulling power lines down. The impact was limited, however. Liander was well-prepared for the extreme weather conditions and a large team of engineers was on stand-by to rapidly re-route the power supply and carry out repairs.

On Sunday, 3 November, there was a power failure in the Mediapark in Hilversum following the performance of emergency power tests. As a consequence, several radio and TV stations were knocked off air at around 11pm. Our involvement in the testing of emergency power installations has been evaluated to manage risks better in the future.

Social value of reliable energy



Costs

Investments in replacement and maintenance



Benefits for Alliander

- Fewer interruptions
- Stronger and robust network
- Lower operating expenses



Social value

- Stronger economy
- Prosperity
- Well-being



One employee's opinion

New developments in the energy market make our work highly dynamic and innovation is imperative. Our colleague Dominique Hermans is a driving force behind sustainable innovation.

"As a large company, Alliander can make a real contribution to a better world. By reducing our CO₂ footprint or purchasing honest materials, for instance. On our online ideas platform 'SamenSlim' we invite all employees to share their innovative ideas. Because together we can reinforce our innovative power. And, in fact, the most promising ideas that create added value for our organisation and society are actually implemented."

Dominique Hermans, CSR counselor at Liander





Employees



Results

2.6

Lost Time Injury Frequency (LTIF)
average number of accidents leading to absenteeism per
one million hours worked



4.1%

Employee absenteeism



8.2

Employee survey score



21%

Women
in leadership positions



With over 7,000 technicians, IT staff and other specialists, we work hard providing reliable energy for everyone. To fulfil this mission, the talents of our employees are indispensable, particularly now that the energy market is facing major changes. In 2013, Alliander once again helped employees to develop their personal ambitions and professional skills. Key themes for employees, such as safety, well-being and working conditions, also received considerable attention.



Building our energy future together

We are on the eve of major changes in our energy landscape, in our work and in the labour market. In 2013, Alliander addressed the vital issue of strategic staff planning in order to prepare for the energy challenges of the future.

Energy infrastructure works are growing in complexity. This is partly because of the increasing use of new technologies and ICT in our networks, and partly because customers are making new and different demands. To meet these challenges, our employees require new competences. Alliander is engaged in a continuous reorganisation cycle to adapt the organisation to what society expects from us. A stronger customer focus and greater efficiency are essential to improve our performance on safety, quality and customer satisfaction. To this end, programmes were initiated in 2013 to enhance our operational efficiency, centralise our activities and do our work first time right. These programmes will bundle expertise in teams and improve cooperation with contractors, the ultimate goal being to continue delivering a high standard of service to customers.

In 2013, we studied the implications of our new energy future for the work we do. Certain tasks will change, new tasks will arise and some tasks will disappear. Together with the Netherlands Organisation for Applied Scientific Research (TNO) and sector peers, we made a detailed analysis of the

labour market to obtain a better insight into the number of school leavers and job seekers in the coming years. If we fail to act now, there will be a shortage of qualified engineers and technicians from 2016. Ageing is an additional concern. In the coming years, about 200 employees will be leaving our company every year. Strategic staff planning helps us to attract, retain and train the right people in time. In this context, a risk inventory enables us to take timely measures. In order to safeguard the availability of sufficient qualified staff in the future, we coach colleagues and invest in training programmes as well as in our visibility in the labour market. We also offer training at the Liander College and other reputable training institutes. In this way, we ensure that our employees' level of knowledge evolves in line with their work as time goes on. Last year, we hired more than 60 additional engineers. They can now start gaining experience, so that they will be fully-trained professionals in two years' time. Finally, a new labour market campaign aimed at professional technicians, IT people and graduates has been launched to show who we are as an employer, what challenges we face and what we have to offer.

Employees by type of employment¹

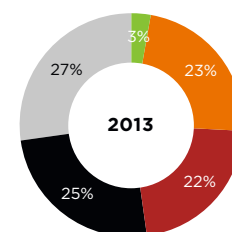
	2013	2012
Number of employees and temporary hires (headcount)		
Employees with a permanent contract	5,623	5,392
Employees with a fixed-term contract	533	624
Total number of employees (headcount)	6,156	6,016
Temporary hires	1,001	1,124
Total number of employees and temporary hires (headcount)	7,157	7,140
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 employees and temporary hires (FTEs)		
Total number of employees	5,948	5,807
Temporary hires	906	1,013
Total number of employees and temporary hires (FTEs)	6,854	6,820

¹ Including employees of Alliander AG and Stam.

New hires and departures¹

	2013	2012
Total new hires (headcount)		
Male new hires	323	412
Female new hires	111	111
Total new hires	434	523
Total departures (headcount)		
Male departures	223	221
Female departures	71	52
Total departures	294	273
Departures due to consolidation	-	28
Departures as percentage of total number of employees	4.8%	4.5%
Average duration of employment (in years)	16	15

¹ Including employees of Alliander AG and Stam.

Age distribution
of employees¹

¹ Including employees of Alliander AG and Stam.

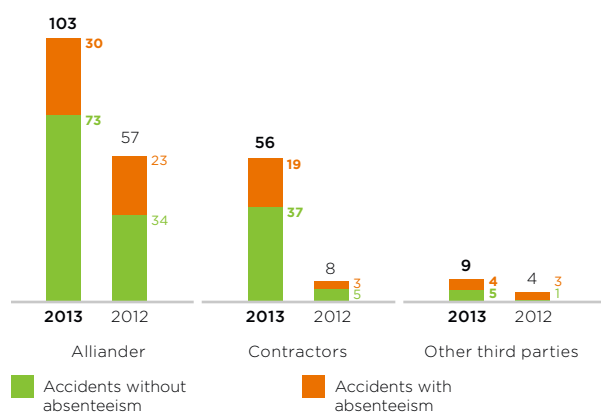
Safety comes first

Safety is of paramount importance for our employees. That is why they attend technical training courses, obtain safety certificates and use the best equipment and materials. Working with gas and electricity calls for expertise and care.



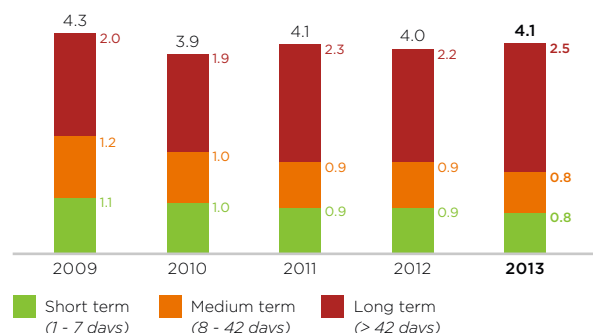
Unfortunately, some of our employees suffered serious accidents in 2013. We investigated the causes and tightened up the safety measures to prevent further accidents in the future. The Safety Taskforce assists the operational departments in raising safety performance and awareness. One important initiative concerns the appointment of safety coaches who help employees on site to identify and prevent unsafe situations. Safety also receives extra attention in training courses and during the induction of new employees. You can read more about this subject in the section 'What we have learned' in this annual report.

We measure our safety performance according to Lost Time Injury Frequency (LTIF). This figure expresses employee safety in terms of the number of accidents with absenteeism in relation to the number of hours worked. In 2013, the LTIF increased to 2.6 (2012: 2.0). More than half the incidents involving absenteeism are caused by carelessness, such as falling, tripping or stumbling. In 2013, a total of 103 occupational accidents involving Alliander employees were reported, up from 57 in 2012. Of the accidents in 2013, 30 led to absenteeism compared to 23 in 2012. The number of accidents is consistent with the trend of recent years, where in 2012 a one-time decrease is seen. The increase in 2013 is mainly due to the increased attention to the reporting of accidents including the campaign 'Meld nu'.

Number of recorded accidents^{1,2}

1 Alliander refers to employees and temporary hires for whom Alliander has employer responsibility. Contractors refers to contractors for whom Alliander has principal responsibility. Other third parties are people with whom Alliander has no direct or indirect contractual relationship.

2 In 2013 and 2012, no fatal accidents occurred as a result of work on, or the failure of, our operating assets.

Absenteeism trend
in percentages

Scope for training and development

Employees are keen to develop their talents. We also encourage our colleagues to cultivate their professional and personal skills. Qualified staff enable us to keep up with the rapid pace of change in the energy market.

In line with the strategic staff planning, managers conduct annual interviews with individual employees to discuss their development opportunities. Each employee is allocated a personal development budget of € 500 to fund appropriate training courses. Our training model enables 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. Alliander offers training courses aimed at improving the professional knowledge, safety and personal competences of employees and managers.

Number of safety training courses¹

By category	2013	2012
Employees	1,955	2,171
Contract staff at contractors	60	156

1 Concerns the number of BEI (Operation of Electrical Installations) and VIAG 2010 (Gas Safety Instruction) courses that were successfully completed with examinations.

Promoting staff mobility

Alliander is undergoing rapid change, as reflected in the influx of employees into our career centre. There is a growing mismatch between the capabilities of our employees and developments in the energy world, which demand increased specialisation on the part of our employees. We support and coach employees towards suitable career prospects.

Providing scope for mobility is one of our priorities. This allows employees to broaden and develop their knowledge and skills. 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.

In 2013, 14.6% of our employees progressed to a new role. This confirms that we are able to retain experienced colleagues by offering new challenges.

Some groups in society are struggling to find their way in the labour market and Alliander considers it important that everyone gets a chance. The Step2Work programme offers people at a disadvantage in the labour market to gain work experience and receive training and coaching at Alliander during a period of one year. The programme improves their prospects of finding employment and achieving economic independence. In 2013, 80 people took part in Step2Work. In this report, you can read more about the social contributions of Step2Work in the Step2Work case.

Cooperation with training institutes

The development of professional knowledge starts with vocational education. By working closely with training institutes, we increase our chances of attracting properly



qualified staff. To narrow the gap between theory and practice in energy technology, we collaborate with institutions at all levels: from intermediate vocational schools to universities. For instance, new combined classroom and workplace training programmes have been developed together with regional vocational and special needs schools. A partnership has also been formed with the HAN University of Applied Sciences

in Arnhem and Nijmegen to tackle the shortage of highly-skilled staff. And we are participating in a part-time Electrical Engineering training course focused on renewable electric energy projects. The training is targeted at young people with a technical background as well as students from other disciplines.

A stimulating working environment

Enjoyment in the workplace is important for every employee. Alliander strives to create a pleasant working environment where employees can be themselves, work together in harmony, and share their knowledge, expertise and creativity. Diversity, vitality and integrity are all high priorities.

Employee satisfaction

We are proud that Alliander is considered a 'Great Place to Work'. The Great Place to Work employee survey looked at the levels of trust, pride and enjoyment among employees. It emerged from the survey that people perceive their work at Alliander to be relevant and important and also feel they receive sufficient opportunities for personal development. For many people, these are good reasons to opt for Alliander as their employer. In 2013, Alliander received a special 'Employee Development' award in recognition of the great diversity of opportunities we offer our employees for personal and professional development. Credibility and communications are aspects that are capable of improvement, according to our employees, with a particular focus on 'making expectations known' and 'doing what you say'. Our score in the Towers Watson employee survey was slightly lower compared to 2012,

down from 8.3 to 8.2. Our colleagues who took part in this survey are positive about such aspects as engagement, safety & working conditions, local leadership and customer focus. They feel there is room for improvement in the fields of future perspectives, vision and guidance, the assessment process, work pressure and work-life balance.

Diversity

In 2013, 20% of the employees were female. Alliander is striving for a diverse workforce, in which female and male competences are both sufficiently represented. This leads to better decision-making and cooperation. Our target is to have women in 21% of leadership positions. To achieve this, we aim to nominate at least one female candidate for each external vacancy for a leadership position.

Hundreds of colleagues do volunteer work

Alliander is a socially engaged company. Alongside our daily work, we also support community projects. In 2013, almost 800 employees volunteered in projects via the Alliander Foundation. Work planner Roel van Es is the inspirational force behind several Actie4Kids initiatives at Alliander.

"The shoebox campaign is one example. Every year, 60,000 surprise boxes are sent to disadvantaged children in developing countries. I have been involved with this project since 2003, and encourage my colleagues at Alliander to fill as many boxes as possible with small toys, toiletries and school supplies. On four occasions I actually went with Actie4Kids to distribute the boxes to the children. The look in their eyes is something you never forget."

Roel van Es, work planner at Liander





Employee diversity¹

	2013	2012
Diversity of employees by gender		
Male	80%	81%
Female	20%	19%
Female / male average salary ratio	93%	93%
Diversity of management by gender^{2,3}		
Men in leadership positions	79%	79%
Women in leadership positions	21%	21%

¹ Including employees of Alliander AG and Stam.

² All employees in leadership positions.

³ In 2013, 8% (2012: 8%) of the total number of employees held a leadership position.

Vitality

Healthy and vital employees are far more productive, particularly when the team atmosphere is also good. By organising sports events and providing special coaching, we encourage employees to embrace an active lifestyle. Whenever employees fall ill, we help them return to work as quickly as possible. Apart from personal contact with managers, Alliander also engages professional support and advice at an early stage to secure a speedy return to work. In 2013, employee absenteeism worked out at 4.1% (2012: 4.0%). We saw that employees reported sick less often, but the average absenteeism period was longer. In 2013, some organisational changes were made. These included the launch of programmes to enhance the efficiency of our business operations and reduce costs. Analysis shows that unrest and uncertainty result in prolonged absenteeism of employees. On the other hand, employees reported sick less often for fear of losing their jobs.

Integrity

To preserve our employees' sense of enjoyment in the workplace, we have defined standards for desirable and undesirable behaviour in the Code of Conduct 'How we do things at Alliander'. This code contains specific rules of behaviour and guidance for measures in the case of undesirable behaviour. The rules themselves, however, are less important than what our employees experience. We want them to feel companionship and trust in the workplace and we urge our managers to encourage this through their own exemplary behaviour. In 2013, 45 (2012: 38) possible infringements of the Code of Conduct were reported. A possible cause is the economic crisis; employees might pass personal problems on to the business. Reports are investigated on the basis of the Alliander Investigation Protocol. This can lead to measures and/or sanctions.

Employees facing unusual situations and conflicts can turn to a confidential counselor or the complaints committee for undesirable behaviour. External parties can report suspected irregularities via Alliander's Whistleblower Policy. Alliander also encourages its employees to report any wrongdoing of a general, operational or financial nature, without compromising their own legal position. In 2013, there were three instances in which the Whistleblower Policy was applied. Investigations did not lead to measures and/or sanctions.

Breakdown of employees by residence¹

Province of residence	2013
Gelderland	50%
Noord-Holland	30%
Friesland	5%
Zuid-Holland	4%
Noord-Brabant	5%
Flevoland	2%
Other provinces in the Netherlands	1%
Germany	3%

¹ Including employees of Alliander AG and Stam.





Labour relations

Together with the trade unions we strive to promote innovation in labour relations. By introducing more flexibility in our compensation & benefits, working practices and contracts, we can offer employees a job to suit their personal circumstances.

New collective labour agreement

In 2013, a new collective labour agreement (cao) for network operators was reached. The new agreement runs from 1 May 2013 to 1 November 2015. During the preliminary talks, employees could go online to air their views on a variety of themes, including labour relations, lifelong employability, and the New Way of Working. Apart from structural salary increases, the new CAO also contains arrangements for lifelong employability. During the term of the agreement, each employee will receive a one-off allowance of 1% of their annual salary to improve their skills and vitality. Part of this amount will be used for collective initiatives, such as an employability scan.

Social Plan

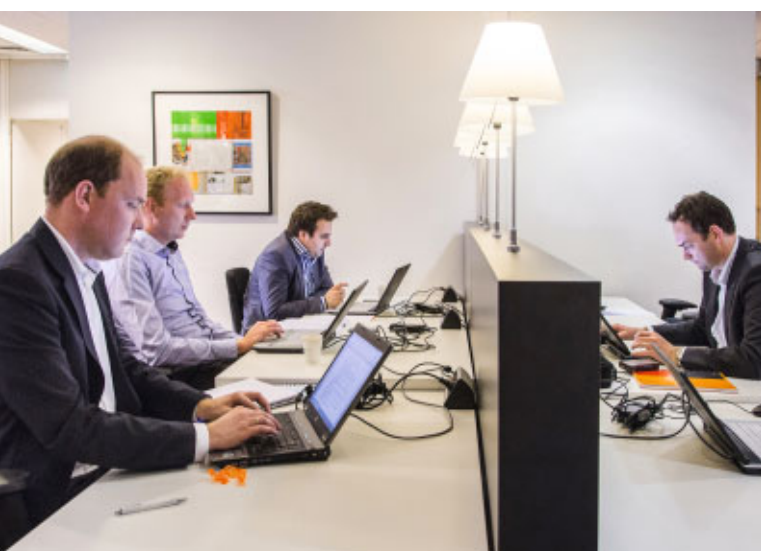
The Social Plan describes what is expected of Alliander and employees when jobs are lost. The basic principle is that employees receive support and guidance to help them transfer from their current job to a new position inside or outside Alliander. A Social Plan has been drawn up together with the largest trade unions, Abvakabo FNV and CNV Publieke Zaak, for the period from 1 November 2013 to 1 November 2016. Alliander has also agreed to provide earlier insight into upcoming reorganisations and the staffing implications.

By providing prompt insight and sharing information, employees can prepare better for their future. In addition, coaching can be tailored more to the personal needs of individual employees. A central mobility committee has been set up to provide the director of the relevant business unit with advice during reorganisations.



Outlook for 2014

Together with more than 7,000 employees, we are working on a reliable, safe and sustainable energy supply. We have a challenging mission that is crucial to society, which is why Alliander strives to use and develop everyone's talent to its full potential.



Be a top-class employer

Alliander will continue to build an organisation where staff trust their colleagues' professionalism and expertise, enjoy their work and are proud of what they do. We help our employees achieve their ambitions in pleasant working conditions, conduct ongoing employee satisfaction surveys, and are committed to remaining a Great Place to Work.

The imminent retirement of many employees means that we will be confronted with increased staff departures in the coming years. Many technically qualified colleagues will leave our company between now and 2020. Alliander is actively searching for new qualified staff who are keen to make a contribution to the future energy supply. In 2014, a labour market campaign will be conducted to raise Liander's profile among job seekers. The campaign will stress the importance of our contribution to society.



Development of future-oriented knowledge and competences

Changes in the energy market also constitute a challenge for employees. New competences and skills are required, while increasing demands, both from our customers and society, are adding to the complexity of our work. We are constantly seeking to improve our efficiency in order to optimise our services to the customer. However, safety always remains the paramount concern.

Alliander invests heavily in employee training and retraining. We have our own training centre and each employee is allocated a personal training budget. In 2014, Alliander also wants to reinforce its cooperation with government, industry and (regional) educational institutions. The worlds of education and work must be even further aligned. Alliander is assisting this process by connecting partners from both worlds and jointly working out regional plans. In this way, we want to bring learning and working closer together.



As a socially committed organisation, Alliander also offers people at a disadvantage in the labour market an opportunity to develop their skills. In 2014, we expect to offer 90 participants employment at Alliander via the Step2Work programme.

Employee representation wants to build on quality

In 2013, employee representatives were closely involved in 'Visie op Operatie', a programme aimed at increasing our operational efficiency. This programme, which focuses on leadership, operational management and the centralisation of knowledge and services, is continuing in 2014. The Works Council is not opposed to these organisational improvements, as it recognises the need to address such basic issues as the disconnection with the shop floor and fragmented processes. The starting points for assessing reorganisations are 'acting carefully' and 'building on quality'. The employee representatives closely monitor the consequences for people and the rationale for decision-making.

In 2013, the employee representatives were also involved in other changes the company is experiencing. Positive opinions were given on diverse issues, including the start-up of new operations. In addition, as a result of changes in the nature of work at various departments, some employees have transferred to the career centre. The employee representatives emphasise that qualified employees in the career centre must be used to better effect for the organisation. This will remain a strong focus of attention in 2014.

The employee representatives also want to adopt renewed, more professional and more efficient working practices. For this reason, a flatter employee representation structure was introduced in the form of the Joint Works Council. By adopting a project-based approach and setting up sounding board groups, the employee representatives are seeking to involve more employees in their work. The elections for the Joint Works Council will be held at the end of 2014.

Composition of Central Works Council in 2013

Ms A. Brinkman, voorzitter
Mr J. Blokker
Mr J. Bosch
Ms C.M.M. Hofman
Mr D. Groen
Mr T. Hendriks
Mr B. Jansen
Mr W. Koks
Mr H. van Laar
Mr F.T. de Rijke
Mr T. Rovers
Mr H.J. Schoep
Mr M. van der Teems
Mr J.W. Thomasson
Mr F.J.A. Welboren
Mr W. Wijnen



Cases

**Alliander's contribution
to Step2Work**

Number of participants

80Number of placements
at our partners**24****Proud of Step2Work**

The central government is seeking to integrate as many disabled persons as possible into the workplace and related arrangements were made in a Social Agreement in 2013.

Alliander has a head start thanks to the launch of our Step2Work programme seven years ago. Originally aimed at young persons with a distance to the labour market, over time the programme has been extended to also help long-term unemployed persons, young disabled persons and people from non-technical disciplines find permanent employment. They are given job experience placements as well as intensive coaching and training. The social value of this programme extends beyond financial costs and benefits.



The Step2Work employment programme has proved to be a successful formula and is attracting great interest. In 2013, 80 individuals were set to work via the programme. Of these, 70 completed the entire programme with a diploma.

Sustainable investment in people

What does the programme entail? In practice, a department 'adopts' a Step2Worker, who gains experience with working, learning and adapting to the culture and behaviour on the shop floor. Alliander provides professional coaching and training opportunities are available. By developing their professional and personal skills in this process, participants can improve their prospects of a job within Alliander or at another company. Alliander sees Step2Work as a sustainable investment in people and society.

Value within our company

What is the programme's value for our company? Step2Work also yields benefits for Alliander. For instance, funding is received from various subsidy schemes. In 2013, 36 participants, after going through the Step2Work programme, got a one-year contract or permanent employment with Alliander. These signify direct savings on our recruitment and selection costs.

However, the true value extends far beyond these financial figures. Alliander wants to be a socially engaged company that is connected to society. Our internal coaches acquire management skills, which is good for their professional development. Moreover, diversity on the shop floor – in terms of age, culture and background – broadens our employees' horizons and contributes to better mutual understanding. This, in turn, promotes cooperation and facilitates the sharing of ideas for improvement and innovation. Finally, at a large organisation like Alliander, Step2Work is a connecting factor: everyone knows about it, and is proud of it.

Value for participants

Step2Work also has an external social value. Jobs are created, which eliminates the need for benefit payments and investments from the CWI (Centre for Work and Income). Our shareholders actively endorse Step2Work by accepting a lower dividend payment.

But for Alliander, the greatest benefit is the creation of value for the participants themselves. Various evaluations indicate that hard-to-measure elements such as pride, self-confidence, happiness and social cohesion are extremely important aspects for the participants. In the coming years, Alliander will continue to create social value in this way. The number of Step2Workers will grow to 90 new employees in 2014.



In the chain

In 2013, our supply chain approach led to the placement of 24 Step2Workers with our partners. Alliander wants to play an active role in society, based on corporate social responsibility. To reinforce our cooperation in this field, we adhere to socially responsible procurement (SRP) principles. Our procurement is based on SRP statements containing arrangements between Alliander and the supplier about efforts in the field of corporate social responsibility. Read more about this in the Shareholders and investors section.

Social value of Step2Work



Costs

- Salaries
- Training
- Coaching



Benefits for Alliander

- Labour productivity
- Staff skills development
- Responsible entrepreneurship



Social value

- Employment
- Happiness
- Confidence
- Improved prospects

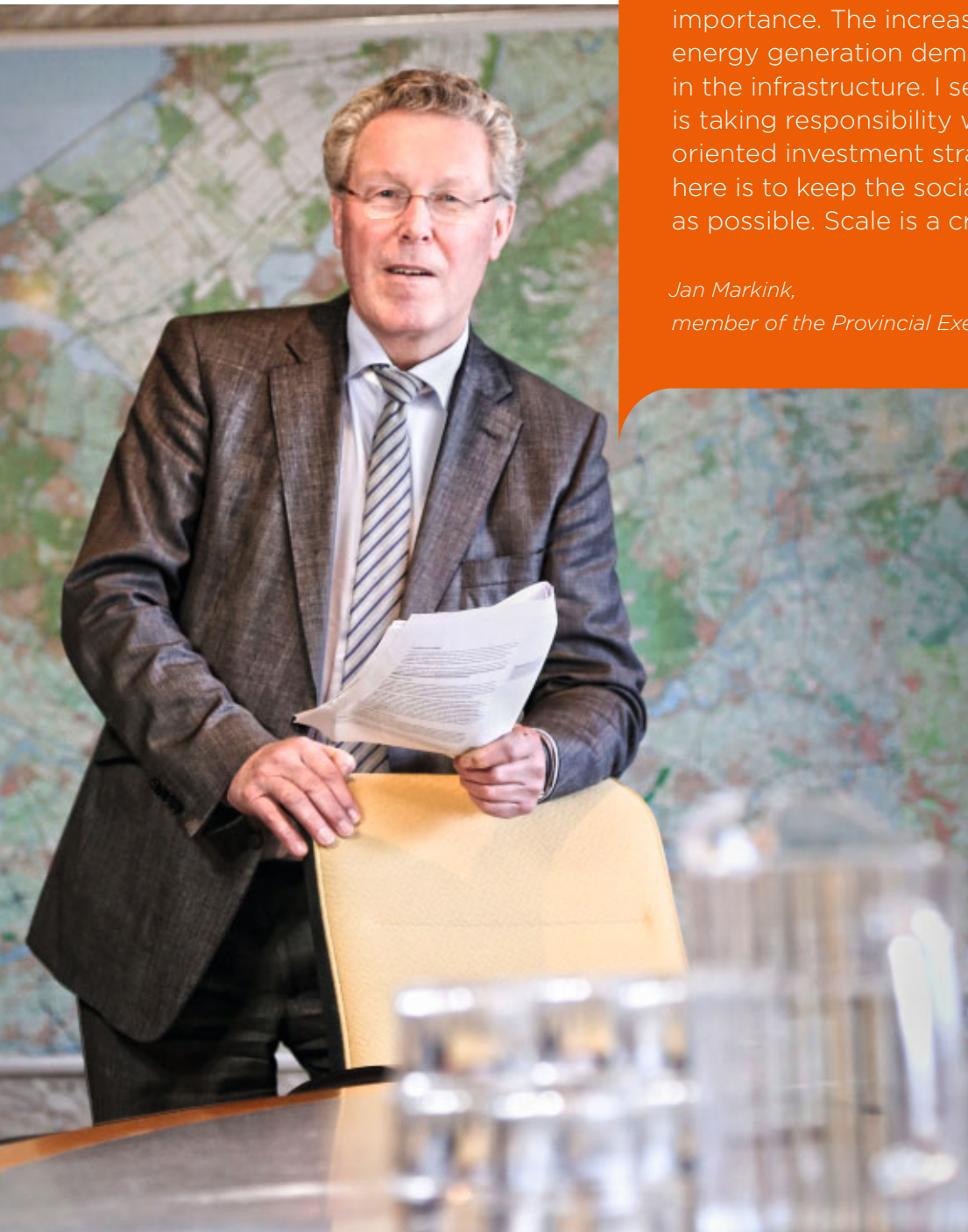


One shareholder's opinion

A number of Dutch provinces and municipalities are shareholders of Alliander. The province of Gelderland is the largest shareholder.

"An energy supply that operates day and night is a crucial basic service for the residents of our province. Alliander plays a key role in this connection. Alongside reliable energy transport, its innovative power is of essential importance. The increase in decentralised energy generation demands investments in the infrastructure. I see that Alliander is taking responsibility with a clear, future-oriented investment strategy. The challenge here is to keep the social costs as low as possible. Scale is a crucial factor."

*Jan Markink,
member of the Provincial Executive of Gelderland*





Shareholders and investors

Financial policy

Ratio	Result	Norm
FFO/net debt	38.7%	> 20%
Interest cover	8.0	> 3.5
Net debt/ (net debt + equity)	36.5%	< 60%
Solvency	51.1%	> 30%

Rating

S&P	AA-/A-1+/stable outlook	Solid A rating profile
Moody's	Aa3/P-1/stable outlook	

Sustainability

CO ₂ emissions	819ktonnes
SRP	47%

For our shareholders and investors it is our ambition to be a robust, socially and economically responsible investment.



A sound investment

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 this sound financial position is therefore of great importance and is very much a function of our financial policy, on which the financial stakeholders are kept regularly informed. They also have the opportunity to ask questions about our financial position and performance and developments with financial implications. This section provides an insight into Alliander's financial position and performance in 2013, our financial policy and our relations with financial stakeholders.

Financial results in 2013

The profit after tax for 2013 was € 288 million (2012: € 224 million). Excluding incidental items and fair value movements, the net profit was € 287 million (2012: € 228 million). In the 2013 reporting period, the regulated revenue was higher than in the preceding year, taking advantage of the higher tariff ceiling allowed by the Netherlands Authority for Consumers & Markets (ACM) in 2013. This increase made it possible to maintain the existing levels of maintenance and capital expenditure.

The cash flow from operating activities increased by € 138 million to € 683 million in 2013. This also helped the solvency ratio to improve to 51.1% and the net debt position to fall slightly. Total assets increased by € 134 million, largely as a consequence of increased capital expenditure on the networks.

2013 income statement

Revenue

Revenue for 2013 was up by € 70 million (4%) compared with 2012, at € 1,744 million. This increase is largely accounted for by higher energy distribution and connection charges (€ 71 million) for both electricity and gas and higher charges for metering services (€ 4 million). These activities generate around 90% of our revenue. Alliander also carries on non-regulated activities, on which the revenue was slightly down (€ 5 million), as reported by Liandon and others.

Other income

Other income in 2013 came in at € 102 million (2012: € 98 million). This income is mainly accounted for by the amortisation of connection contributions from our customers.

Operating expenses

Total operating expenses for 2013 came in at € 1,389 million (2012: € 1,378 million). Excluding incidental items, total operating expenses in 2013 came in at € 1,378 million, compared with € 1,363 million in 2012.

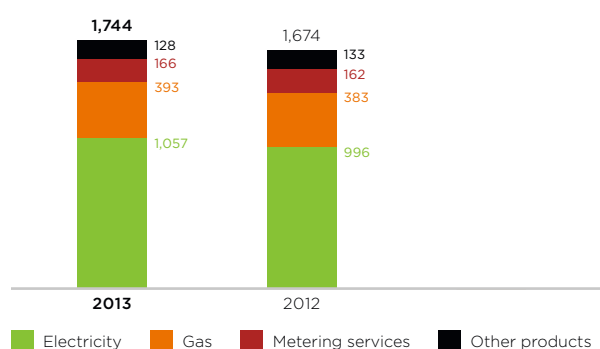
The increase compared with 2012 is largely attributable to increases in depreciation charges, in the surffance tax which is levied by some municipal authorities, and in the gas and electricity network operating expenses, particularly maintenance costs. These increases were to some extent offset by lower purchase costs and staff costs.

This is itemised as follows:

- purchase costs and costs of subcontracted work down by a total of € 33 million as a result of the tapering and settlement of the costs of network losses from prior years;
- a shift in staff costs with reduced use of external contractors and greater use of Alliander employees – including the increase in the capitalised costs of hours worked by Alliander employees, this meant a drop of € 4 million in overall staff costs;

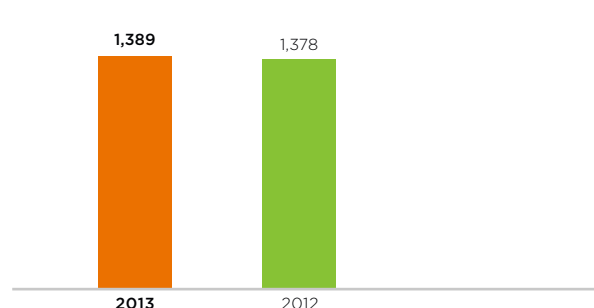
Revenue

€ million



Operating expenses

€ million





- increased depreciation charges – up by a total of € 20 million – due to a high level of investment in the networks as well as to the recognition of several impairment losses. Heads of agreement were reached with the City of Amsterdam in 2013 concerning the Spaklerweg site, specifically the sale of some of the buildings and land in 2014. The carrying amount of the assets to be sold is € 19 million. The sale price will only be received in instalments, however, over a number of years commencing in 2020, reducing the carrying amount (net present value) of this sale price to € 13 million as at year-end 2013. On this basis, an amount of € 6 million has been recognised as an impairment loss in the income statement;
- increased costs of € 16 million in respect of sufferance tax and € 6 million in respect of costs of outside consultants and professional advice.

Sufferance tax increased by € 16 million compared with 2012, to € 59 million. The graph below illustrates the rise in sufferance tax over the last five years. The increase is due to the fact that more and more municipal authorities are levying this tax on Alliander. Since this is an objectifiable regional difference, these sufferance costs are discounted in the tariffs for all customers in the Liander area.

A different approach to the analysis and control of cost trends, instead of looking at it on the basis of cost categories reflecting the format of the income statement, involves analysing the operating expenses, excluding incidentals, from a management point of view into costs which can be influenced and those which cannot. The latter category comprises purchase costs (including the costs of grid losses, costs passed on by TenneT and sufferance tax), process costs (including network maintenance costs and the costs of billing and payment collection) and depreciation charges. The controllable costs mainly comprise overheads and general administrative expenses (indirect costs).

This results in the following breakdown of operating costs:

Specification operating expenses, excluding incidental items

€ million	2013	2012
Purchase costs	358	372
Process costs	370	366
Indirect costs	293	288
Depreciation	357	337
Total	1,378	1,363

From this analysis, it can be seen that the increase in total operating expenses is entirely accounted for by an increase in depreciation charges, including impairment losses of € 7 million. Both process costs and indirect costs remained more or less unchanged. Purchase costs were down, mainly as a result of the previously mentioned reduction in the costs of grid losses. It should also be mentioned that the indirect costs include the costs of the improvement programmes such as Vision of Operations and Step to Excellence, together amounting to € 18 million in 2013. If these costs are excluded, indirect costs – on a normal basis – amount to € 275 million, a drop of € 13 million (5%) compared with 2012.

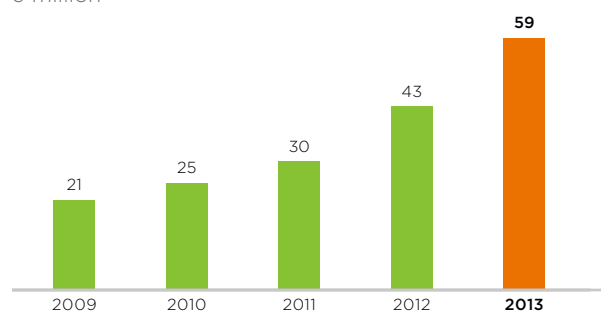
Maintenance costs and network investments

The graph below shows the trends in maintenance costs and in capital expenditure on the networks over the last five years, including the investment in smart meters.

Compared with total costs of € 448 million as recently as 2009, the figure in 2013 was € 762 million, an increase of 70%. The factors behind this increase include network upgrades and expansions, replacement programmes, such as for grey cast-iron gas mains, digitalisation developments and the roll-out of smart meters.

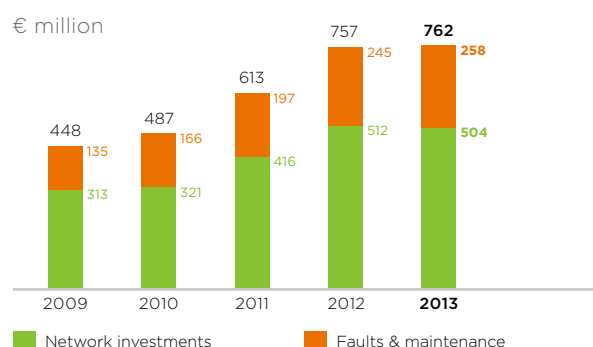
Sufferance tax

€ million



Maintenance costs and network investments

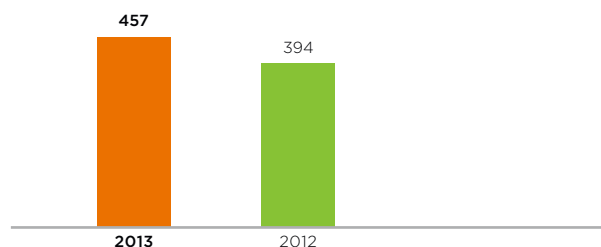
€ million





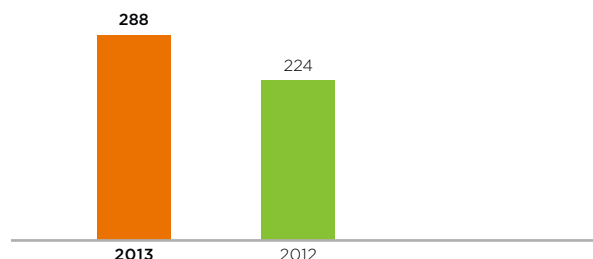
Operating profit

€ million



Operating profit after taxes

€ million



Operating profit

The operating profit for 2013 was up by € 63 million at € 457 million. Excluding incidental items, the increase compared with 2012 was € 59 million.

Finance income and expense

Finance income and expenses in 2013 resulted in a net expense of € 69 million (2012: € 145 million). The reduction of € 76 million was mainly the result of the redemption of bonds in 2012 (€ 44 million), lower scheduled interest charges in 2013 (down by € 10 million), partly as a consequence of the bond redemptions exercise, and fair value losses on interest rate swaps (€ 18 million), partially countered by increased currency translation charges (€ 3 million).

Associates and joint ventures

The share in the results after tax of associates and joint ventures in 2013 was a gain of € 2 million (2012: € 15 million loss). The 2012 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 2013 financial year was 26.3% (2012: 4.0%). The slightly higher effective tax rate in 2013 compared with the standard rate (25.0%) is primarily caused by minor adjustments relating to prior years. The difference between the standard rate of taxation and the effective tax burden in 2012 was 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 of the corporation tax assessments for prior years.

In November 2010, Alliander issued a subordinated perpetual bond loan with a nominal value of € 500 million. In the closing two months of 2013, this subordinated perpetual bond loan was redeemed. Under IFRS, an instrument of this kind qualifies as equity. It was assumed that the periodical payments made to the holders of the bonds would count as deductible expenses for the purposes of corporation tax. However, no agreement has yet been reached with the Dutch Tax Administration concerning the tax treatment of this loan. The maximum exposure for Alliander is between € 20 million and € 30 million. Having consulted external experts, the Management Board decided not to recognise a provision for this possible liability.

Profit after tax

The profit after tax for the year 2013 came in at € 288 million (2012: € 224 million). Excluding incidental items and fair value movements, the net profit for 2013 was € 287 million (2012: € 228 million).

The increase of € 59 million is accounted for by a combination of higher revenue (€ 70 million) resulting from the increase in regulated tariffs, on a cost base that is materially unchanged except for higher depreciation charges and lower scheduled interest charges.

Incidental items

Alliander's results can be affected 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. To qualify for recognition as incidental items, a lower limit of € 10 million is in principle applied.



Net incidental items and fair value movements in 2013 combined to give a gain of € 1 million after tax (2012: € 4 million loss).

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	
	2013	2012	2013	2012	2013	2012
Revenue	1,744	1,674	-	-	1,744	1,674
Other income	102	98	-	-	102	98
Total purchase costs, costs of subcontracted work and operating expenses	-1,223	-1,222	-11	-15	-1,212	-1,207
Depreciation and impairments	-357	-337	-	-	-357	-337
Own work capitalised	191	181	-	-	191	181
Operating profit (EBIT)	457	394	-11	-15	468	409
Finance income/(expense)	-69	-145	13	-50	-82	-95
Result from associates and joint ventures	2	-15	-	-12	2	-3
Profit before tax	390	234	2	-77	388	311
Tax	-102	-10	-1	73	-101	-83
Profit after tax	288	224	1	-4	287	228

Total purchase costs, costs of subcontracted work and operating expenses
(2013: € 11 million expense; 2012: € 15 million expense)

Incidental expenses in both 2013 and 2012 concerned reorganisation costs connected with changes to the organisation.

Finance income/(expense)
(2013: € 13 million income; 2012: € 50 million expense)

The incidental income in 2013 relates primarily to the measurement of measurement of KEMA's put and call options. The incidental expense in 2012, amounting to € 50 million, is the net effect of:

- premium paid for the early redemption of bonds (€ 44 million);
- fair value movements on interest rate swaps, loss of € 18 million;
- items connected with cross-border leases, including costs arising from the revaluation of an investment relating to a cross-border lease construction and the movement in the associated provision, totalling € 9 million gain;
- remeasured amount of KEMA's put and call options, gain of € 3 million.

Share in results from associates and joint ventures
(2013: nil, 2012: € 12 million loss)

In 2012, this related to impairment losses arising from adjustments to the projected medium-term results.

Tax
(2013: € 1 million expense; 2012: € 73 million gain)

The incidental expense in 2013 relates to the tax effect on the incidental items and fair value movements. Incidental income in 2012 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 of the corporation tax assessments for prior years.





Cash flows

Shown below is a summary of the cash flow statement for 2013.

Consolidated cash flow statement

€ million

	2013	2012
Cash flow from operating activities	683	545
Cash flow from investing activities	-493	-498
Cash flow from financing activities	-135	-53
Net cash flow	55	-6

The cash flow from operating activities in 2013 amounted to € 683 million (2012: € 545 million). The increase of € 138 million compared with 2012 is essentially accounted for by the higher operating profit, the changes in working capital and the reduced interest charges on our debt in 2013, largely as a consequence of the refinancing of part of the EMTN portfolio in the autumn of 2012.

The cash outflow from investing activities in 2013 was more or less unchanged compared with the preceding year (€ 493 million compared with € 498 million in 2012). The cash flow from investing activities in 2013 includes the investment in data communication masts and operating licence totalling € 19 million in connection with the establishment of a dedicated mobile telecommunication network for energy networks.

Investments in property, plant and equipment

€ million

	2013	2012
Electricity regulated	247	272
Gas regulated	170	182
Metering devices	53	52
Buildings, ICT etc.	100	72
Total	570	578

The cash flow from financing activities in 2013 amounted to € 135 million negative (2012: € 53 million negative). The difference of € 82 million is due in part to the additional payment to holders of the subordinated perpetual bond loan in connection with the buyback and reissue operation. In 2013, apart from the replacement of the subordinated perpetual bond loan, no new long-term loans were drawn down or repaid.

Free cash flow in 2013

The free cash flow in 2013 totalled € 190 million, compared with a free cash flow in 2012 of € 47 million. The increase of € 143 million compared with 2012 is largely explained by the greater cash flow from operating activities.

Reconciliation free cash flow

€ million

	2013	2012
Cash flow from operating activities	683	545
Investments in non-current assets	-575	-583
Construction contributions received	82	85
Free cash flow	190	47



Financial position

Net interest-bearing debt

The following table presents the reconciliation of the net debt position as at 31 December 2013:

Reconciliation net debt position

€ million	31 December 2013	31 December 2012 ¹
Long-term interest-bearing debt	1,611	1,891
Short-term interest-bearing debt	284	5
Finance lease liabilities	127	131
Gross debt	2,022	2,027
Cash and cash equivalents	155	100
Non-current financial assets	136	137
Current financial assets	100	75
Investments held for lease obligations related to cross-border leases	161	177
Total cash and cash equivalents and investments	552	489
Net debt in accordance with the annual financial statements (IFRS)	1,470	1,538
50% of the subordinated perpetual bond loan	248	247
Net debt on the basis of Alliander's financial policy	1,718	1,785

¹ Commencing in 2013, the interest-bearing receivables from third parties cease to be included in the net debt position. The 2012 figures have been restated accordingly for comparison purposes.

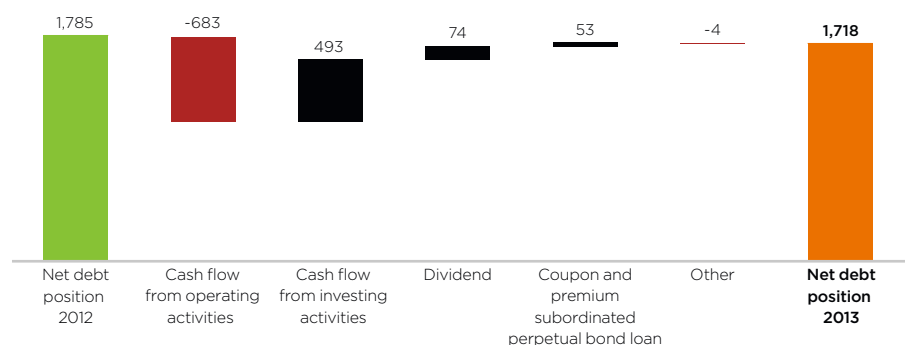
The net debt position as at 31 December 2013 amounted to € 1,718 million (2012: € 1,785 million). This is a decrease compared with the net debt position as at year-end 2012 of € 67 million. The following graph provides further analysis of this decrease.

The reduction of € 63 million in the net debt position in 2013 is mainly accounted for by a free cash flow of € 190 million, against which there were dividend payments and the cost of

the subordinated perpetual bond loan replacement, totalling € 127 million. Various instruments are used for financing the maintenance and expansion of the energy networks and other activities. For this finance, Alliander is dependent on its shareholders, institutional investors and banks. Alliander's creditworthiness is rated by rating agencies that publish their findings.

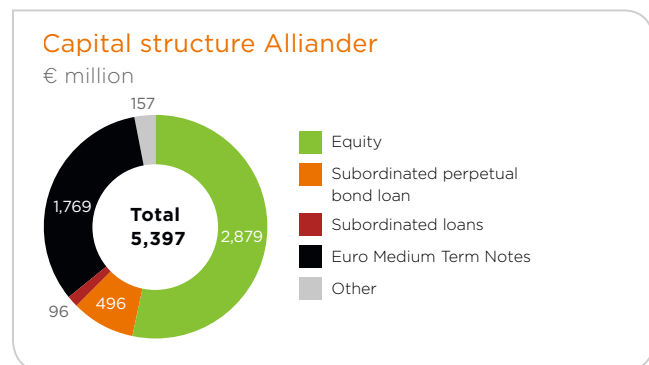
Development net debt position

€ million





The capitalisation of Alliander as at year-end 2013 was made up as follows:



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 subordinated perpetual bond loan also receive a fixed return on their investment out of the reported profit provided a 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 loan. 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. The aim is 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

Financial framework

Alliander's financial framework is formed by the ratios FFO/net debt, interest cover, net debt/net debt plus equity and solvency.

In a departure from IFRS, the subordinated perpetual bond loan issued in 2013 is treated as 50% equity and 50% borrowed capital.

Ratios

Ratios in accordance with Alliander's financial policy

	norm	31 December 2013	31 December 2012 ¹
FFO/net debt ²	> 20%	38.7%	30.1%
Interest cover ³	> 3.5	8.0	6.0
Net debt/(net debt + equity)	< 60%	36.5%	38.3%
Solvency ⁴	> 30%	51.1%	49.5%

The financial framework within which Alliander operates is based on four ratios, as presented in the above table. These ratios are calculated according to the principles of our financial policy.

- Commencing in 2013, the interest-bearing receivables from third parties cease to be included in the net debt position. The 2012 figures have been restated accordingly for comparison purposes.
- The funds from operations (FFO)/net debt ratio is the 12-month profit after tax adjusted for deferred tax movements and incidental items and fair value movements plus depreciation of property, plant and equipment and amortisation of intangible assets and accrued income, as a percentage of net debt.
- 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.
- The solvency ratio is arrived at by dividing equity including the profit for the period less the expected dividend distribution to be made in the current year 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 2013, the FFO/net debt ratio amounted to 38.7% (year-end 2012: 30.1%). This increase is mainly accounted for by the increase in the operating profit. Alliander's financial policy stipulates that this ratio should be a minimum of 20%.

As at 31 December 2013, the interest cover ratio worked out at 8.0, which is a higher figure than at year-end 2012 (6.0). Again, the increase is largely attributable to the higher operating profit. Alliander's financial policy stipulates that this ratio should be a minimum of 3.5.

The ratio of net debt/sum of net debt and equity as at 31 December 2013 amounted to 36.5% (year-end 2012: 38.3%). The slight decline is mainly attributable to an increase in equity in 2013. Alliander's financial policy stipulates that this ratio should not exceed 60%.

The solvency ratio as at 31 December 2013 amounted to 51.1% (year-end 2012: 49.5%), one of the factors here being an increase in equity. Alliander's financial policy stipulates that this ratio should be a minimum of 30%.

Dividend policy

Up to year-end 2013, the dividend policy (as part of the financial policy) provided for distributions out of the profit after tax, adjusted for non-cash incidental items, unless the investments required by regulators or the financial criteria demanded a higher profit retention percentage and unless the solvency ratio fell below 30% after payment of dividend. Also taken into account was the requirement formulated by the Minister of Economic Affairs when the integrated energy companies were unbundled, limiting the dividend up to year-end 2013 to a maximum of 45% of the profit after tax. With effect from 1 January 2014, the dividend policy is no longer subject to this government restriction. However, the Supervisory Board has approved the proposal by the Management Board to continue the existing policy. In accordance with the Dutch corporate governance code, a separate resolution regarding the reserve and dividend policy will be included in the business of the Annual General Meeting of Shareholders (AGM) to be held on 2 April 2014.

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 quantified standards, investment proposals must also satisfy qualitative requirements. 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. A full list of the shareholders can be found on the Alliander website (alliander.com).

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 2013, there were 136,794,964 issued and paid-up shares.

Contact with shareholders primarily takes place in shareholders' meetings. However, Alliander also believes that contact between the company and the shareholders outside of the shareholders' meetings are equally important. Alliander accordingly maintains various bilateral and general contact with shareholders through such bodies as the Committee of Shareholders, the Major Shareholder Consultation Body and the Sounding Board Group.

The Committee of Shareholders is a group of shareholders appointed by the General Meeting of Shareholders from among their number on which specific powers are conferred. These powers include the power to recommend candidates for appointment to the Supervisory Board and to appoint and dismiss its members and 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).

The Major Shareholder Consultation Body is in turn an informal governance body in which preparations are made for the General Meeting of Shareholders, providing a forum for discussion of relevant developments, information exchange and promotion of mutual understanding. The Sounding Board Group is an informal discussion forum at working group level which makes preparations for the Major Shareholder Consultation Body's deliberations. In both discussion forums, the same shareholders and shareholder groups are represented as in the Committee of Shareholders. Discussions ranged over such matters as Alliander's dividend policy, the advantages of economies of scale for Alliander in relation to the energy transition process, the strategic course to be pursued by Alliander and Alliander's draft annual plan for 2014.

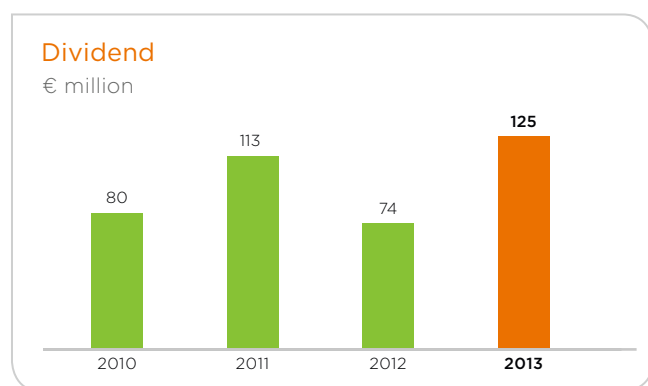
The Annual General Meeting of Shareholders took place on 27 March 2013. The meeting considered the 2012 annual report and formally adopted the 2012 financial statements and the dividend declaration in respect of 2012. At the same meeting, the shareholders ratified the executive decisions of the members of the Management Board in 2012 and the supervision thereof performed by the members of the Supervisory Board. The AGM also passed a resolution amending the Articles of Association and approved the proposal to reduce the number of members of the Supervisory Board to six.



The AGM also appointed PricewaterhouseCoopers N.V. as the company's auditors for a period of three years (auditing the accounts for 2013, 2014 and 2015). Finally, the AGM reappointed Ms J.G. van der Linde and Mr E.M. d'Hondt and appointed Ms J.W.E. Spies members of the Supervisory Board.

Proposed profit appropriation for 2013

The Management Board has determined, with the approval of the Supervisory Board, to add € 162.8 million of the profit to other reserves. The remaining profit of € 125.0 million is at the disposal of the General Meeting of Shareholders. This equates to 45% of profit after tax, excluding incidental items after tax that did not generate cash flows in the 2013 financial year.



The increase in the dividend for 2013 compared with 2012 is attributable to the higher net profit in 2013 among other things.

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 relations activities in

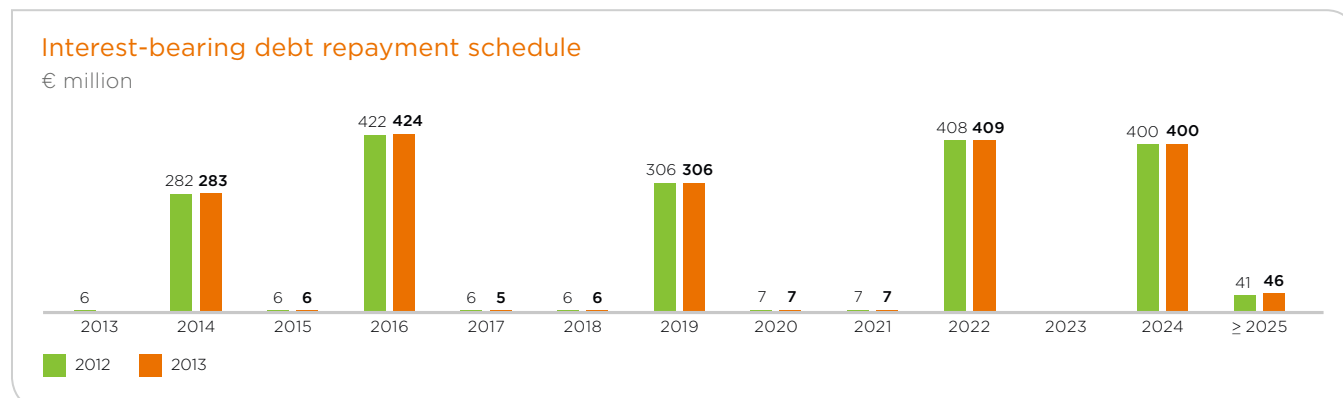
addition to complying with ordinary publication requirements. In this context we organised roadshows in March and September 2013, visiting investors in Amsterdam, Paris, London and Frankfurt to give presentations on the financial results and other relevant developments, including the tariff reductions taking place in the regulatory period 2014 - 2016 and the impact this will have on Alliander's earnings. Another topic of interest concerned the upgrading of the credit rating by S&P and the implications of this for the acknowledgement by S&P of counting 50% of the subordinated perpetual bond loan as equity. There was also regular individual contact with investors regarding this matter.

Capital market and money market activities

Alliander was active on the capital market last year in an operation to buy back the existing subordinated perpetual bond loan and issue a new subordinated perpetual bond loan in its place.

This operation was indirectly prompted by the upgrading of the credit rating of Alliander N.V. by S&P from A+ (positive outlook) to AA- (stable outlook) in August 2013, meaning that a clause in the terms and conditions of the existing € 500 million subordinated perpetual bond loan to which S&P attached importance ceased to be applicable. This would have meant that S&P would no longer treat the bond loan as being 50% equity. After careful consideration of the interests of all stakeholders involved, Alliander decided against altering the terms and conditions of the existing bond loans, preferring instead to redeem the existing loan in its entirety and issue a new bond loan. The buyback of the € 500 million in existing subordinated perpetual bonds took place in the last two months of the year. In November 2013, Alliander issued a new subordinated perpetual bond loan of € 500 million with a coupon of 3.25%. This new loan has been given a 50% equity weighting by S&P and Moody's.

The repayment schedule for the interest-bearing debt as at year-end 2013 was as follows:





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 2012, bonds totalling € 1.776 billion had been issued. There were no EMTN programme transactions in 2013 so the bonds in issue as at 31 December 2013 had a carrying amount of € 1.766 billion (nominal value € 1.776 billion). Alliander also has a € 1.5 billion ECP programme. Under this ECP programme, an amount of € 175 million was issued in the year under review. As at year-end 2013, however, all the ECP loans had been repaid.

Banks

Alliander previously contracted a committed backup credit facility totalling € 600 million with six banks. The facility runs until 13 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 buyback of the existing subordinated perpetual bond loan and issue of a new subordinated perpetual bond loan to replace it. 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 13 July 2018 was also exercised in 2013.

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 the year under review, the S&P rating was upgraded from A+ to AA- and the outlook was revised from positive to stable. The Moody's ratings and outlook remained unchanged.

The credit ratings as at year-end 2013 were as follows:

Credit ratings

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

During the reporting period, Alliander was in contact with the rating agencies on several occasions. A recurrent theme of these contacts concerned the tariff reductions taking place in the regulatory period 2014 - 2016. The annual reviews took place in June. Based on the recent financial performance and forecast figures for Alliander presented on this occasion, the credit rating agencies reassessed Alliander's creditworthiness. The result was that S&P upgraded its published ratings for the company on the grounds that it expected Alliander's creditworthiness to continue warranting an AA- rating despite the tariff reductions in the pipeline.

At the time of issue of the replacement subordinated perpetual bond loan in November, issue ratings A and A3 were also published by S&P and Moody's, respectively. They are not as high as the corporate ratings because of the subordinated nature of the loan.

At the end of 2013, S&P adopted new rating criteria but has confirmed that the application of these new criteria does not give cause to revise Alliander's AA- corporate rating.

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 following table. These figures are a direct reflection of the regular internal reporting. Detailed information on segment reporting can be found on page 125 of the financial statements.



Primary segmentation

€ million	Network operator Liander		Network company Endinet		Other		Eliminations		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Operating income										
External income	1,642	1,558	117	109	87	105	-	-	1,846	1,772
Internal income	3	12	-	-	315	313	-318	-325	-	-
Operating income	1,645	1,570	117	109	402	418	-318	-325	1,846	1,772
Operating expenses										
Operating expenses	1,185	1,178	90	87	421	423	-318	-325	1,378	1,363
Operating profit	460	392	27	22	-19	-5	-	-	468	409

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 2013 was up by € 84 million compared with 2012, at € 1,642 million. This increase is mainly accounted for by the increase in the regulated tariffs in 2013. Operating expenses increased, by € 7 million, mainly owing to higher depreciation charges. Operating profit was € 68 million higher compared with 2012, at € 460 million.

Network company Endinet

The network company Endinet segment comprises Endinet Groep B.V., including the network operator Endinet B.V. The external income in 2013 amounted to € 117 million, an increase of € 8 million compared with 2012. The increase was brought

about by higher regulated tariffs. Operating expenses came in at € 90 million (2012: € 87 million). The operating profit for 2013 was € 27 million (2012: € 22 million). The increase is due to higher external 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 2013 was down € 18 million compared with 2012, at € 87 million. This decrease was a consequence of lower revenue reported by Liandon, together with other factors. The operating profit for 2013 was € 19 million negative (2012: € 5 million negative). Costs were down by € 2 million, at € 421 million. Although Liandon's costs were reduced by € 12 million, there were increased costs for the activities in Germany in particular, connected with planned expansions, and there were start-up costs for activities relating to electric vehicles, sustainable housing and sustainable area development projects.





Balance sheet

The abridged balance sheet as at 31 December 2013 is shown below.

Consolidated balance sheet

€ million	Alliander N.V.	
	31 December 2013	31 December 2012
Assets		
Non-current assets	6,933	6,875
Current assets	593	539
Non-current assets held for sale	22	-
Total assets	7,548	7,414
Equity and liabilities		
Total equity	3,375	3,203
Non-current liabilities	3,476	3,758
Current liabilities	697	453
Total equity and liabilities	7,548	7,414

The following notes explain the significant changes in the balance sheet as at 31 December 2013 relative to the situation as at 31 December 2012. 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 2013 was € 58 million higher than as at 31 December 2012. This increase is mainly a consequence of higher capital expenditure on the networks in relation to the associated depreciation charges. The increase in property, plant and equipment is partially offset by a reduction of € 91 million in the deferred tax asset in 2013. This drop is mainly a consequence of the use of tax breaks relating to the possibility of accelerated depreciation of investments in the second half of 2013, an increase in the normal rate of writedown permitted for tax purposes and utilisation of tax loss carryforwards. In addition, the other financial assets were down by € 21 million, mainly as a consequence of the payment of a receivable from former shareholders of Endinet amounting to € 33 million, the effect of which was partially cancelled out by loans granted to entities in which Alliander has non-controlling interests.

Current assets

Compared with the position as at 31 December 2012, current assets were up by € 54 million, at € 593 million. The increase is mainly accounted for by the increase in cash and in other financial assets, partially offset by a drop in trade and other receivables and in the tax assets. The balance of trade receivables was down compared with the position as at year-end 2012, largely because of the introduction of a new market model on 1 August 2013.

Assets held for sale

The assets held for sale relate to part of the Spaklerweg site in Amsterdam (€ 13 million) and a high voltage network in the centre of the Netherlands (€ 9 million). On reclassification, an impairment loss of € 6 million was recognised on the Spaklerweg asset and expensed.

Equity

Equity as at 31 December 2013 increased by € 172 million compared with the level as at year-end 2012, to € 3,375 million. This increase is mainly accounted for by the net profit for 2013, amounting to € 288 million, less the dividend distribution for 2012 made in 2013 (€ 74 million) and a payment made to the holders of the subordinated perpetual bonds (€ 42 million after tax). A summary of the movements can be found on page 135 of the financial statements.

Non-current liabilities

The amount of non-current liabilities was down by € 282 million compared with 31 December 2012. This decrease is mainly due to an amount of € 277 million of the EMTN portfolio being reclassified as current liabilities in connection with scheduled repayments in 2014.

Current liabilities

The current liabilities as at 31 December 2013 were up by € 244 million compared with the position as at year-end 2012, at € 697 million. This increase is mainly due to the said reclassification of part of the EMTN portfolio (€ 277 million).



Events after balance sheet date

None.

Outlook for 2014

Investment

Gross capital expenditure, mainly on replacement and expansion of the networks but also including energy-transition investments in SASensors and telecommunications networks, will amount to a total of approximately € 500 million. The pace of development of decentralised power generation and feed-in to the network is taken into account in determining the level of our medium-term investment. Also planned in 2014 are investments for activities in Germany and for activities connected with charging points for electric vehicles and with sustainable area development projects as well as investments in alterations to premises in Duiven and Arnhem. The combined capital expenditure involved is estimated at more than € 100 million.

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 around € 60 million, rising to more than € 100 million a year in smart meters over the period 2014 - 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 2014, we expect, barring unforeseen and non-recurring developments, a lower operating profit in 2014 than in 2013.

Our sustainability performance

Alliander aims to be a socially responsible enterprise. In the performance of our tasks, we work constantly to improve sustainability, including sustainability in our own operations. We want to minimise our carbon footprint, working closely with our suppliers.

Progress in reducing CO₂ emissions

With CO₂ emissions of over 800 kilotonnes, Alliander has a substantial carbon footprint. Grid losses, incurred inter alia in transporting electricity and gas, account for 90% of this footprint. The cost of covering these grid losses – € 72 million in 2013 – is included in our operating expenses.

Alliander is working to reduce its footprint significantly in the coming years, aiming to achieve climate-neutral operation in 2023 by reducing its net CO₂ emissions to zero. Our CO₂ 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.



**CO₂-footprint¹***In tonnes of CO₂*

	2013	2012
	Emissions	Emissions
Scope 1 (direct emissions from in-house activities)		
Gas consumption in buildings	3,079	2,915
Gas grid leakage loss (total) ²	110,538	112,361
SF6 emissions from electricity grid ³	868	1,171
Lease and company cars ⁴	17,137	17,637
Total scope 1	131,622	134,084
Scope 2 (indirect emissions from in-house activities)		
Electricity consumption buildings ⁵	6,251	5,884
Electricity transmission/distribution grid losses ⁵	644,662	619,963
Total scope 2	650,913	625,847
Scope 3 (chain emissions from product usage and direct and indirect emissions from contracted-out activities)		
Electricity grid construction and replacement	29,154	37,080
Gas grid construction and replacement	467	493
Commuter, business, air travel	2,043	2,151
Waste ⁶	4,699	4,892
Total scope 3	36,363	44,616
Total	818,898	804,547

1 Alliander calculates and reports the CO₂ emissions in accordance with the Greenhouse Gas Protocol (GHG Protocol).

The chain emissions released during raw material extraction and electricity and gas transmission are also included in this calculation.

2 Methane emissions from gas pipe network.

3 SF6 concerns leakage from high voltage switching installations.

4 Emissions from lease and company cars including fuel chain emissions resulting from raw material extraction and transmission.

5 Emissions are based on the most recent Dutch production mix.

6 Waste CO₂ concerns the balance of standard CO₂ emissions and savings according to the statement from waste processor Sita, which processes about 63% of Alliander's total waste (98% excluding metals).

Results in 2013

Our CO₂ emissions increased by 14 kilotonnes (1.8%) in 2013 compared with the year before. Of our total emissions, 18 kilotonnes reflect the higher factors used to convert consumption into CO₂ emissions, so total consumption by Alliander was lower. On the basis of the emission factors used in 2012, our CO₂ emissions in 2013 would have been 801 kilotonnes, or 4 kilotonnes lower than the year before. The graphic shows the makeup of our footprint by category. There were several developments in 2013 regarding our CO₂ emissions. The most important of these were the following:

- Grid losses from electricity distribution increased by 25 kilotonnes, of which 18 kilotonnes reflected the higher emission factor compared with 2012 and 7 kilotonnes were due to higher grid losses. This latter increase was largely the result of higher administrative grid losses, caused inter alia by property vacancies, fraud and energy theft. About 6% more cases of fraud were resolved in 2013 thanks to a structured approach in conjunction with the community health services (GGDs) and the police. At the same time, however, the administrative losses due to property vacancies were higher, because of the supplier model introduced in 2013 which reformed connection administration. Connections and consumption which cannot be invoiced are charged to the network operator;
- Our technical electricity grid losses were lower in 2013, mainly reflecting the lower transported volume. We also

embarked upon various programmes to reduce technical grid losses. For example, a pilot study was launched in 2013 involving an 'amorphous transformer', which promises substantially lower energy losses than conventional transformers. Also in 2013, we replaced 10 kilovolt cables with 20 kilovolt cables which offer lower grid losses. In regard to gas, a 'dynamic pressure management' pilot project was launched involving the Zutphen gas network, with the aim of reducing the volume of methane lost. Methane is a greenhouse gas with 23 times the effect of CO₂. We are also engaged in a programme to prevent gas leaks by replacing grey cast-iron pipe. We replaced 238 km of grey cast-iron pipe in 2013;

- Energy consumption in our buildings was up slightly, so CO₂ emissions due to energy consumption in our buildings were also higher in 2013. This was partly the effect of a long and cold winter. Alliander also finds itself in a transition phase which involves rationalising our locations. Redevelopment of our Duiven location started in 2013, combining the existing buildings into one integrated building which will generate more renewable energy than it consumes. We are expecting a substantial improvement in energy performance in our buildings from 2015 onwards;
- We also achieved a reduction in our emissions of greenhouse gas SF6, primarily due to the effect of our procurement policy and the agreements we have made with our suppliers to deliver SF6-free switching equipment;



- Our mobility-related emissions were lower in 2013. An important milestone was passed last year with agreement on a tightening of our company-car scheme. From 1 January 2014, a maximum nominal emission limit of 120 g CO₂/km applies to new vehicles joining the company fleet.

'Greening' strategy

As well as reducing our CO₂ emissions in the coming years, we also want to offset them by generating additional renewable energy in the Netherlands. At sector level we are investigating the (legal) scope available to network operators. It was established in 2013 that network operators were currently offsetting 50% of grid losses by purchasing guarantees of origin. In practice, they buy foreign guarantees of origin, primarily because they are readily available and are sold at the lowest prices. This approach to 'greening' does not lead directly to a larger share for renewable energy generation in Europe. In 2014 we shall investigate what the physical planning, financial and legal impact would be if all network operators offset 40% of network losses with energy from new Dutch sources.

CO₂ performance ladder

In 2013, our CO₂ approach and method were again certified on the basis of the CO₂ performance ladder. Alliander rose from level 3 to level 4 (of 5). The ladder shows how the results achieved by companies compare with their ambitions in the area of CO₂ reduction. CO₂ certification is increasingly required in tendering procedures.

Progress in reducing raw material consumption

Our waste flows, which are determined largely by the nature of our operations, decreased by around 7% in 2013. Thanks to close cooperation with waste processors, our recycling percentage has increased from 80% to 87%. Improvements, mainly in office waste, have been achieved by local separation of waste items. We shall continue to define our policy on raw materials in 2014, having worked inter alia in 2013 on the 'Ondernemen in de Circulaire Economie' report and the Fair Meter Green Deal. In the latter case, we are aiming for a highly recyclable smart meter and maximum transparency concerning raw materials.

Performance in procurement and in the chain

In the course of our operations, we use raw materials, products and services from all over the world. Every year we purchase about € 900 million of products and services from suppliers of our choice. Our procurement activities, tendering criteria and partnerships always aim to raise social themes and seek improvements with our partners. We try to avoid or minimise any negative impact elsewhere in the value chain. Key issues include labour conditions, reclamation of raw materials, recycling and CO₂ emissions. Our suppliers operate in accordance with the 'Alliander Suppliers Code of Conduct'. This code requires our suppliers (and their suppliers and manufacturers) to act in accordance with ethical and fair business principles. If necessary, audits are performed to guarantee compliance with our Code of Conduct and environmental laws.

We also reached agreement with around 100 suppliers on Socially Responsible Procurement (SRP) statements for 47% of our procurement budget in 2013, an increase of 5 percentage points compared with 2012. These SRP statements set out the sustainable tendering requirements and additional requirements relating for example to CO₂ reduction, sustainable materials usage and labour participation. The objective is to have 80% of our procurement budget covered by SRP statements in 2016.

Socially Responsible Procurement (SRP) statements

%	2013	2012	2011
Purchase contracts with SRP statements	47	42	30

Impact of our chain agreements

At Alliander's request, Ernst & Young made a study in the last quarter of 2013 of the social impact of our agreements with suppliers. We wanted to assess the value of our chain agreements to Alliander and to society. The social effects of the first 20 SRP statements were investigated with our suppliers. The findings of the study are being used to increase the effectiveness of our SRP policy still further.



The study showed that SRP statements do have an effect. For example:

- 19 of our contractors are now certificated on the CO₂ performance ladder (level 3 and higher), covering 86% of all our contractors;
- In ten of the 20 SRP statements studied, agreements were made with partners with regard to raw materials: two agreements on the reduction of packaging material, five on the recycling/reuse of materials and three on waste separation;
- 24 people at a disadvantage on the labour market found jobs with our suppliers through our Step2Work programme;
- As regards CO₂ emissions, our chain agreements with suppliers have led many of them to focus on CO₂ reduction within their own organisations. The suppliers we studied had reduced their CO₂ emissions by 1,300 tonnes as a result of CO₂ agreements;

- Alliander made the greatest impact by procuring switching installations which contain no SF₆, a strong greenhouse gas that has a 22,800 times greater greenhouse effect than CO₂. Since the launch of the SRP statement, Alliander has installed over 1,500 SF₆-free switching units, thereby making a total saving of over 46,000 tonnes of CO₂. The effect can be seen in our CO₂ footprint;
- As for raw materials, Alliander replaced 40 km of cables in 2013 with P-laser HTPE cable, which has the advantage that the insulation can be reused. Alliander has thus replaced 22,000 kg of non-recyclable material with an alternative that can be recycled. Reuse yields a saving of 60 tonnes of CO₂;
- Cooperation with the printer supplier and installation of the Follow Me Print system on the printers resulted in a reduction in the number of prints by 9.5 million over the period 2011 - 2013, saving 63 tonnes of CO₂.

"When the SRP statement came into effect, we went to work on raising awareness of corporate social responsibility, CO₂ saving and the Step2Work programme. We are very pleased with our Step2Work recruits and have offered them permanent contracts. We have nothing but praise for the Step2Work programme's support during the selection, introduction and induction phases. We have made significant progress in CO₂ reduction and sustainability. Without Alliander's SRP statement, I probably wouldn't have been bold enough to fit speed limiters on our trucks. Our mechanics are now very enthusiastic and are coming forward themselves with great ideas for further improvements."

Harrie de Hoop, J&D Leidingsystemen

"Alliander is open to sustainable innovation and is playing a pioneering role among the network operators. This encourages us to continue coming up with new and sustainable products such as the P-laser HTPE cable. We could have a greater sustainability impact on the chain if we worked more closely together on logistics and optimising the use of cable reels. I would be in favour of that."

Hanneke Tammenga, Prysmian Cables





Cases

**Investment
in smart meters**

2013 (in € million):

45.8Estimated investment
up to end-2018 (in € million)**450**Total number of smart meters
installed (until 2013):**500,000**

Smart meter

The energy market is changing. Consumers are generating energy themselves and feeding it back into the network. Consumers also want to be able to use energy more intelligently and more economically. In response, more and more new technologies and innovative applications are coming onto the market.

The smart meter is a key element that is making this possible. Alliander aims have offered smart meters to all of our customers by 2020. What is the capital cost of this? What can customers do with the smart meter? And what will the concrete savings be?

A smart meter is a new digital electricity meter. It enables the network operator to read the smart meter remotely. The smart meter also records the energy fed into the network by solar panels or wind generators. Smart applications can be used with the smart meter, for example to give consumers a real-time picture of their energy consumption. An application of this kind will, for instance, let them see immediately how much a washing or drying cycle costs in euros, making it even easier to save energy. And lower energy consumption means lower CO₂ emissions.



Savings made by using a smart meter

In short, the smart meter has an important role to play in the energy market. But what benefits can the smart meter bring for society? There are a number of elements involved. Consumers in future will be more careful in their use of energy, whether to save money or to help build a more sustainable world. As regards reducing gas and electricity consumption, a study by KEMA has indicated a potential saving of around 3.2% in electricity consumption and 3.7% in gas consumption.

The smart meter also brings a number of other benefits for society. It will make it easier for energy suppliers and network operators to monitor, secure and control their networks. The smart meter can also be read remotely, so meter readers will no longer need to call and householders will no longer have to send in their meter readings themselves. And lastly, the network operator will be able to identify any sudden changes in energy consumption sooner and thus reduce fraud and localise faults more quickly and minimise energy loss.

What tangible benefits will the smart meter have for society? This depends on several factors, such as future levels of efficiency and energy-related developments. KEMA has calculated that the social savings for the whole of the Netherlands will amount to €770 million net. Alliander's supply area covers about one-third of the country.

Responsible investment in smart meters

Switching to smart meters will inevitably involve capital expenditure and costs. Millions of meters will have to be changed, a task for which Alliander has been preparing for several years. The capital cost, which Alliander intends to keep as low as possible, will be recouped through the energy tariffs. Substantial investments have been made in pilot projects in recent years to ensure that the changeover is managed as efficiently as possible. For example, smart meter installation will be combined where possible with necessary maintenance work, so that our fitters can complete all the work in and around the meter box in one session. Alliander is also investing in smart communication technologies, to enable secure remote reading of all meters, and has started work on setting up a wireless telecom network. To keep the fixed costs down, the possibility of other infrastructure managers also using this system is being explored.

We believe that a secure energy future is not possible without this latest technology and that it therefore offers great added value for society. In this way, we can target our capital expenditure on the right technology and make the right decisions, while advancing in managed phases towards the energy transition.



Fair Meter Initiative

Smart meters have an important role to play in facilitating the energy transition and saving energy for our customers. Over the coming years, all the network operators will be replacing millions of traditional meters with smart meters. To minimise the ecological footprint of the smart meter, Alliander launched the 'Fair Meter Initiative' in 2012 in cooperation with other network operators. The entire production chain and life cycle are 'fair': from raw material extraction, production and complete recycling to minimal energy consumption and assured privacy. Alliander signed a 'Green Deal' with Minister of Economic Affairs Henk Kamp in November.

Social value of the smart meter



Costs

Investment in smart meters and technology



Benefits to Alliander

- Reduced grid losses
- Efficiency



Social value

- Reduced CO₂
- Energy saving
- Employment



Is privacy protected?

Some customers have concerns about how their data will be used. Can the smart meter tell when no-one is at home, or what electrical appliances they have? Liander will not have access to data on energy consumption by individual appliances and the smart meter will not be read continuously, so it will not be possible to tell from the smart meter whether someone is watching TV or taking a shower. To protect privacy, network operators are required to take measures to make their networks and data traffic secure. These security measures ensure that third parties cannot access your data or link it to your name and address. Liander has been awarded 'Privacy Audit Proof' certification for the processing of privacy-sensitive customer data provided by the smart meter. With this certification, which is awarded annually for a one-year period, Liander can reliably demonstrate that its processing of customers' personal data is secure. Early in 2013, about 100,000 smart meters no longer complied with the statutory privacy and security requirements. Liander has ceased to read these smart meters, so that they are now used as traditional meters.



Our networks in the regions



Millions of customers count on energy every day. Our task is to provide them with safe, reliable and affordable energy, taking account of local energy ambitions and opportunities.

Modernisation of our networks

In 2013, we pressed ahead with the modernisation of our networks. Focusing, first and foremost, on safety. One investment priority was the replacement of grey cast-iron gas pipes. A total of 238 kilometres of these pipes were overhauled. At some locations, including the centre of Amsterdam, new technologies were used in order to minimise the nuisance for local residents and businesses.

Impact of economic crisis

The stagnating housing market and economic crisis meant fewer new homes and businesses needed to be connected to the network. We already anticipated this scenario in our year plans.

Investing in digitisation

We also made substantial investments in the digitisation of our infrastructure, including the installation of 90 kilometres of fibre optic cable in our regions. Fibre optic cable will play a key role in the energy networks of the future. Besides

facilitating the steady growth in digital communication with new devices such as the smart meter, digital technologies also accelerate the localisation of interruptions and restoration of service. Alongside network adjustments, we placed a total of 224,000 smart meters. Our aim is to offer smart meters to all of our customers between now and 2020.

Together with the regions

Our activities are carried out as much as possible in cooperation with municipalities in our regions. Reconstruction works, for instance, require close coordination. Various projects have been initiated to shift cables and pipes in connection with major infrastructure works. Examples include the construction of the North/South Metro Line in Amsterdam and several provincial trunk roads in Noord-Holland and Friesland. Liander was entrusted with a special responsibility during the coronation ceremony of King Willem-Alexander. On that memorable day, over 100 employees were active in Amsterdam to keep the energy flowing smoothly and without interruption.



Regional data	 Electricity ¹		 Gas ¹		Total electricity and gas ²	 Smart meters	Electricity outage duration
	expansion	replacement	expansion	replacement		placements	minutes per year
Noord-Holland							
realisation	46.3	16.4	8.8	20.0	91.5	41,000	21.4
year plan	35.9	21.0	6.6	22.8	86.3	22,000	
Amsterdam							
realisation	24.4	16.2	6.5	56.0	103.1	52,000	30.0
year plan	18.2	16.7	3.4	42.9	81.2	120,000	
Zuid-Holland							
realisation	22.9	20.0	3.1	15.2	61.2	18,000	22.5
year plan	20.5	25.7	2.8	20.9	69.9	26,000	
Gelderland							
realisation	45.2	18.3	12.2	29.3	105.0	75,000	24.6
year plan	42.7	19.1	9.0	29.6	100.4	90,000	
Flevoland							
realisation	6.9	1.6	1.0	0.3	9.8	12,000	34.2
year plan	11.4	2.9	2.0	3.7	20.0	10,000	
Friesland							
realisation	16.6	5.2	0.5	1.6	23.9	8,000	17.4
year plan	19.9	3.8	0.3	1.8	25.8	9,000	
Noord-Brabant							
realisation	2.7	2.7	4.2	11.1	20.7	18,000	6.8
year plan	4.1	2.6	3.6	10.0	20.3	13,000	

¹ In € million.
² In this table, the investments are allocated to the regions in line with the starting points of the 2013 Year Plan.



Noord-Holland

		Realisation	Year Plan
 Electricity	Expansion (in € million)	46.3	35.9
	Replacement (in € million)	16.4	21.0
 Gas	Expansion (in € million)	8.8	6.6
	Replacement (in € million)	20.0	22.8
Total electricity and gas		91.5	86.3
 Smart meters	Number of placements	41,000	22,000



Noord-Holland is a hive of business activity. To meet the energy needs of the horticultural sector and large ICT businesses, Liander upgraded the province's energy networks. We also participated in innovations in the region. A test bed for an intelligent network was started up in Heerhugowaard in 2013.



Construction projects demand infrastructure expansions



New-build projects in the province meant that our gas and electricity networks required replacement and expansion. In Purmerend, for instance, we constructed a 20 kilovolt electricity network to facilitate the growing energy needs of a new industrial estate. The network was also

upgraded in the municipality of Koggenland, and between Haarlemmermeer and Rijsenhout. In Rozenburg the expansion of our substation got under way, enabling new data centres to be connected more easily. In Noord-Holland we also worked on road reconstruction projects, including the N23 and A1. Due to these reconstructions, Liander needed to shift cables and gas pipes at several locations. These activities are continuing in 2014. In Zaandijk, we relocated a high-pressure gas pipe and a drilling operation was carried out under the River Zaan in cooperation with the provincial water mains company.

Overall in Noord-Holland, we invested more in network expansion than in replacement in 2013. Demand for new connections was unexpectedly high and the number of connections that needed to be replaced was lower than anticipated. In addition, the implementation of several major replacement projects was partly shifted to 2014 due to scheduling changes.

Green Deal Project in Haarlem

In Haarlem, Liander took part in the 'Watt for Watt' project, which aims to make 3,000 homes more energy-efficient. In cooperation with the municipality of Haarlem, housing associations and homeowners, Liander replaced over 700 energy meters with smart meters during renovation projects in 2013. Thanks to these smart meters, residents can monitor their own energy consumption and save energy more easily.

Pilots in the region

In 2013, we gained experience in Heerhugowaard and Texel with new technologies, partnerships and projects. The results of these test beds help to answer key questions about important intelligent network issues such as tariff structure, the network operator's role and legislation and regulations. In this way, we are making steady cost-effective progress towards the large-scale application of intelligent networks. One test bed project on the island of Texel involved providing 300 islanders with a special display that gives them insight into the amount of energy they consume and generate. Works in Heerhugowaard included equipping a switching station with remote control sensors.

The number of smart meter placements exceeded expectations, partly because more new-build homes were fitted out with the new meter. The number of customer-initiated placements was also up.



Amsterdam

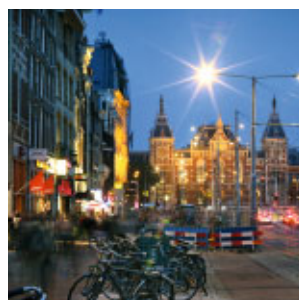
		Realisation	Year Plan
 Electricity	Expansion (in € million)	24.4	18.2
	Replacement (in € million)	16.2	16.7
 Gas	Expansion (in € million)	6.5	3.4
	Replacement (in € million)	56.0	42.9
Total electricity and gas		103.1	81.2
 Smart meters	Number of placements	52,000	120,000



The municipality of Amsterdam has ambitions to be climate-neutral in the longer term. In 2013, Liander took part in several of the municipality's initiatives in the field of energy saving and sustainable generation, including large wind turbines.



Partner in Amsterdam Smart City



In 2013, we took part in Amsterdam Smart City, a joint initiative with the municipality of Amsterdam and other partners. This initiative was started in 2009 with a view to identifying and promoting new ways of making smarter use of energy, both today and tomorrow. By bringing partners

together and setting up small-scale local projects, we make it possible to test these initiatives in practice. For instance, the intelligent network we constructed in Nieuw-West in 2012 enabled various companies to work together in 2013 on innovative solutions for matching the supply of and demand for renewable energy.

Growing demand for energy

Demand for electricity is growing in Amsterdam, fuelled in part by burgeoning business activities, notably in ICT. In 2013, over € 100 million was invested in the expansion and replacement of our energy networks in Amsterdam. In response to the growing demand for capacity, Liander carried out large-scale projects in e.g. the Bijlmer area and the Zuid-As business district in order to facilitate capacity expansions. Works on our substations in Zorgvlied, Nieuwe Meer and Kaperweg have improved the reliability of supply.

In 2013, more gas connection pipes were replaced, leading to higher-than-planned investments.

Another reason was that the costs in Amsterdam are higher than the national average. Due to a change in policy, the number of smart meters placed with customers was lower than planned. In addition, Alliander decided in 2013 to switch over to a new communication technology (CDMA) which will also be used for smart meters. Until the new technology becomes available traditional meters will not be replaced if they still meet set criteria.



North/South Metro Line

The realisation of the North/South Metro Line also has consequences for our infrastructure. Liander provides the connections required to power the North/South Metro Line. Preparations were made

in 2013 for some of these connections, which will come into service in 2014. In addition, we needed to make adjustments to the gas network for construction of the line. These activities were carried out in close consultation with the gas network regulator SSM (State Supervision of Mines) and were successfully completed in 2013.



Zuid-Holland

		Realisation	Year Plan
 Electricity	Expansion (in € million)	22.9	20.5
	Replacement (in € million)	20.0	25.7
 Gas	Expansion (in € million)	3.1	2.8
	Replacement (in € million)	15.2	20.9
Total electricity and gas		61.2	69.9
 Smart meters	Number of placements	18,000	26,000



Liander invested in the electricity network in Zuid-Holland, notably for the greenhouse industry and to reinforce the energy network in Leiden. We also expanded the electricity network at various locations in the region in order to cater to the growing demand for electricity.



Demand for electricity is on the rise

Demand for electricity distribution is accelerating in Zuid-Holland, partly due to a surge in new business activity, but also because of the advance of electric cars and the increasing use of heat pumps. Liander is actively preparing for these developments by creating more space and capacity in the province's electricity network. In 2013, our infrastructure was upgraded in e.g. Rijnsburg and Katwijk, the Bollenstreek and Leiden.

Replacement of gas mains

Apart from the expansion and management of our energy networks, Liander has the important task of investing in the timely replacement of obsolete networks to maintain the reliability of supply at the same high level. As in 2012, the replacement of grey cast-iron gas pipes was a high priority in 2013. About 37 kilometres of these pipes were replaced in

Zuid-Holland in 2013. In Hillegom, an innovative repair method was used to limit the nuisance for local residents and businesses. This method enabled us to restore the quality of the network without needing to entirely dig up the mains.

Replacement work was lower than planned in 2013, mainly because fewer replacements were required. In addition, the implementation of several replacement projects was put back to 2014 due to scheduling changes. One project was postponed owing to archaeological excavations.

Flexible public lighting

A pilot was started in Leiden to test flexible public lighting. This system enables the municipality to turn the public lighting on or off when it chooses (e.g. to save energy or deviate from fixed on/off times during festivities or calamities), without Liander's assistance.

The number of smart meter placements was lower than planned because of adjustments in the planned replacement. In addition, Alliander decided in 2013 to switch over to a new communication technology (CDMA) which will also be used for smart meters. Until the new technology becomes available traditional meters will not be replaced if they still meet set criteria.



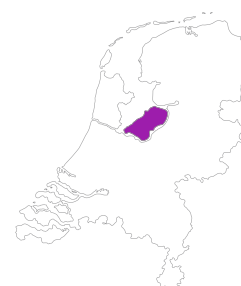


Flevoland

		Realisation	Year Plan
 Electricity	Expansion (in € million)	6.9	11.4
	Replacement (in € million)	1.6	2.9
 Gas	Expansion (in € million)	1.0	2.0
	Replacement (in € million)	0.3	3.7
Total electricity and gas		9.8	20.0
 Smart meters	Number of placements	12,000	10,000



The province of Flevoland aims to be energy-neutral by 2020. Key to the achievement of this ambition is the development of large wind farms. To support Flevoland's drive towards energy neutrality, Liander invested € 9.8 million in the adjustment and expansion of the existing infrastructure in 2013.



Development of wind energy

Flevoland is working hard to develop renewable energy generation capacity, particularly wind farms. In recent years, Alliander helped this region create a vision for a sustainable energy future. We contributed knowledge about energy management and energy data. In 2013, Liander worked closely with energy producers and the national network operator TenneT on plans to adjust and expand the existing infrastructure. In addition, various capacity expansion projects were undertaken to accommodate wind energy. Several wind turbine connections were realised, including for the wind farm in Zeewolde that powers thousands of households.

Residential construction and a smart electricity network in Almere

In the Almere-Hout residential area, we started in 2013 with the construction of an intelligent electricity network. As a result, interruptions affect fewer customers and the causes can be more quickly traced and resolved. The economic crisis has dampened residential construction in Flevoland and, hence, also the demand for investments in our network. However, wherever residential construction took place, Liander expanded the electricity networks to connect the new homes.

Poort van Dronten

A new industrial estate named 'Poort van Dronten' is being built in Dronten for SMEs and cutting-edge firms active in agri-business, renewable energy and innovation. In 2013, Liander constructed the low and medium voltage network, and also assisted with the construction of the gas network for the industrial estate.

Due to the subdued residential and commercial construction activity, fewer expansion investments in our network were necessary in 2013.





Gelderland

		Realisation	Year Plan
 Electricity	Expansion (in € million)	45.2	42.7
	Replacement (in € million)	18.3	19.1
 Gas	Expansion (in € million)	12.2	9.0
	Replacement (in € million)	29.3	29.6
Total electricity and gas		105.0	100.4
 Smart meters	Number of placements	75,000	90,000



The province of Gelderland has its sights firmly set on energy saving and renewable energy generation. We support these energy ambitions. In 2013, we participated in various projects, including the energy infrastructure for residential construction projects with heat pumps and the construction of a heating network.



Industrial estate and residential areas under development

Local developments, such as the speed of economic growth, influence the pace at which adjustments need to be made to our energy networks. In 2013, various new construction projects were started in the region. They included large industrial estates in Ede and housing in Apeldoorn, Harderwijk and Oldebroek. Liander adjusted the infrastructure accordingly. In Apeldoorn, Liander will team up with TenneT to build a new substation to meet the extra demand for energy. In Doetinchem, the gas network was adjusted for the development of the A18 Business Park at Wehl.

Space for the River

Gelderland is carrying out its 'Space for the River' programme aimed at improving the river area's flood protection. Efforts include giving rivers more overspill space at strategic locations. This also has implications for our infrastructure, which in some cases needs to be moved elsewhere. In consultation with the various authorities involved, planning and preparation got under way in 2013 for several projects. These included Watergeul Veessen-Wapenveld in Heerde, Voorsterklei in Voorst and Cortenoever in Brummen. The implementation will continue in the coming years.

Construction of heating network

Alliander helps the municipality of Nijmegen with the transmission of residual heating produced by the ARN Waste Processing Facility. We are building a transmission network from the waste processor to connection points in the

Waalprong and Waalfront areas. The re-use of industrial residual heating means about 14,000 homes can be supplied with energy. In Eerbeek, Liander and ATAG opened a biogas network in 2013. This is a special gas network for the transportation of biogas. The customary practice in the Netherlands is to adjust the gas quality to the specifications of customers' equipment. However, with this biogas network, the reverse applies: the equipment is adjusted to the quality of the gas.

The number of smart meter placements was lower than planned because of Alliander's decision in 2013 to switch over to a new communication technology (CDMA), which will also be used for smart meters. Until the new technology becomes available traditional meters will not be replaced if they still meet criteria set.





Friesland

		Realisation	Year Plan
 Electricity	Expansion (in € million)	16.6	19.9
	Replacement (in € million)	5.2	3.8
 Gas	Expansion (in € million)	0.5	0.3
	Replacement (in € million)	1.6	1.8
Total electricity and gas		23.9	25.8
 Smart meters	Number of placements	8,000	9,000



Friesland is committed to energy saving and renewable generation. The province is exploring the potential for wind energy, waste digestion and solar energy. Liander's contribution in 2013 comprised constructing intelligent networks and offering smart meters.



Development of smart networks

Some of the existing energy networks in Friesland no longer have sufficient capacity. The main reason is the rise of decentralised generation. To correct the problem, we constructed 20 kilovolt intelligent networks in various places, including Sexbierum and Dokkum. Computers and sensors are built into the junctions of these intelligent electricity networks, thus enabling us to carry out remote measurements of the power and tension in these junctions. This permits more precise monitoring and control of the network. Interruptions can be localised more quickly and immediately remedied. We also prepared work for a new 20 kilovolt network in the Lemmer neighbourhood. The implementation of this project will continue until 2015.

Changes at local request

Changes in the region sometimes affect our existing networks. In 2013, we shifted a number of cables and mains in the municipality of Smallerland and Drachten. We also started moving electricity connections to create space for a new road ('De Centrale As') between Dokkum and Nijega.

Replacements in the gas network

The gas networks in Friesland were renewed wherever necessary. In 2013, three kilometres of grey cast-iron gas mains were replaced. This project will continue until 2016. In the municipality of Smallerland we are also removing the Nijega district gas mains. These activities are continuing in 2014.



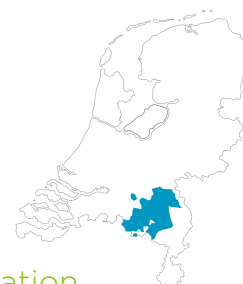


Noord-Brabant

		Realisation	Year Plan
 Electricity	Expansion (in € million)	2.7	4.1
	Replacement (in € million)	2.7	2.6
 Gas	Expansion (in € million)	4.2	3.6
	Replacement (in € million)	11.1	10.0
Total electricity and gas		20.7	20.3
 Smart meters	Number of placements	18,000	13,000



To meet the daily demand for energy, Endinet increased the network capacity and quality at certain locations. The potential for local renewable generation was explored together with regional authorities.



Growing demand for energy

To absorb the increasing load on the networks, Endinet started to implement intelligent networks in 2013. These activities are continuing in 2014. The capacity of the energy networks is also being expanded in preparation for the anticipated growth in the region. These efforts enable us to facilitate the growing industry around Strijp and improve the supply of gas in the centre of Eindhoven and around Westerhoven and Bergeijk.

Modernising the gas network



In 2012, Endinet embarked on a gas network improvement programme. Based on an extensive risk analysis, we decided to replace a number of gas mains (including grey cast-iron pipes) in the coming years. This reduces the risk of interruptions in the gas distribution network and improves the quality of the

network. The activities are going according to plan and will continue through 2016. Wherever possible, the replacement of the gas mains is carried out in combination with water mains company projects in order to minimise the nuisance for local residents and businesses. For the same reason, gas mains replacements are also planned to coincide with reconstructions and other municipal works, where possible.

Renewable energy generation in the region

In 2013, we adjusted the gas infrastructure to make it suitable for green gas feed-in. This enabled a new green gas supplier to start operating in September. Together with two other initiators, we are engaged in talks about green gas feed-in at various locations in the service area. In addition, three feed-in feasibility studies were performed at the request of potential renewable energy generators.

To determine the impact of increased local generation and feed-in, Eindhoven is setting up the 'Airey' project. A number of homes will be equipped with solar panels and switching stations will be fitted with extra measurement equipment. This will help us to understand the effects of solar panels in preparation for large-scale decentralised generation.

In 2013, the number of smart meters placed in Noord-Brabant exceeded our plans. This was partly due to a higher number of combined placements by Enexis in our shared service area. In part of Noord-Brabant Enexis operates the electricity networks whereas the gas networks are operated by Endinet.



What we have learned

Alliander strives to deliver the best possible performance, in every single field. But some incidents, new developments and events take an unexpected course. We want to learn from these experiences and continue improving the quality of our organisation. This section highlights two key themes for stakeholders: safety and customer satisfaction.

Safe working conditions for employees

Employee safety is a key priority for Alliander. In 2013, 30 accidents resulted in employee absenteeism, including two serious accidents early in the year.



Situation

On Friday, 4 January 2013, an employee was severely injured during work on a substation in Amsterdam. He was carrying out a visual check on ground leads in a space containing a 50,000 volt installation. While climbing up a ladder into the danger zone of the installation, a sudden burst of flame left him with extremely severe burns. The investigation of our Safety, Environment & Quality Department focused primarily on how this could happen to an experienced and qualified engineer. According to the investigation, he was probably under the assumption that the electric current had been switched off. The Inspectorate of the Ministry of Social Affairs and Employment (SZW) concluded that insufficient measures had been taken against the risk of having direct or indirect contact with the installation and coming too close to the installation.

On Tuesday, 26 February 2013, an employee sustained severe injuries at a substation in Ede. During his work, he fell four metres after stepping on a loose plate. Fortunately, the employee is making a good recovery and is gradually returning to work. The background to the accident was investigated by the internal Safety, Environment & Quality Department and the SZW Inspectorate. The Inspectorate concluded that insufficient measures had been taken to eliminate the risk of falling. Our internal investigation showed that the possible risks had not been properly assessed. In addition, an ad hoc departure from the original plan while carrying out the work had given rise to new risks.

What we have learned

- In substations with comparable situations, a preventive plate, which is secured with a lock, has been fixed to the ladder. This prevents access to the ladder.
- Extra internal attention is being devoted to this aspect of safe working practices. The outcomes and learning points of the investigations have also been shared with other network operators.
- To increase the safety of our employees, more attention needs to be devoted to leadership and exemplary behaviour.
- Changes in the original work plan must be handled with more awareness and better insight.
- More emphasis must be placed on the importance of the Last Minute Risk Analysis.
- The danger of falling must be more closely considered when assessing the work implementation plans.



Keeping customers satisfied

Alliander scores high in customer satisfaction ratings and does its best to listen to the customer. Unfortunately, not everything is done first time right and not all customers are satisfied with our activities and services.



Situation

One matter that attracted a lot of publicity in 2013 was that some Liander customers with a small user connection had an oversized meter. This was spotlighted in the TV consumer programme Radar on 19 March, which revealed that about 7,000 customers had oversized gas meters. As the meter capacity determines the tariff that Liander charges, some of these customers had been overcharged.

In 2013, Liander was also mentioned in the TV programme 'Kanniewaarzijn'. The case centred on a dairy farmer in the rural area of Reeuwijk/Boskoop who had applied for a new connection in 2011. He was planning to build a new farm with cow stalls. For various reasons and due to miscommunication, it took more than two years to deliver the new connection. The farmer even needed to temporarily use a generator to power his new home and dairy installations.

What we have learned

- The affected customers will receive a refund for any excess amount charged for up to five years.
- Unnecessary large meters have been replaced.
- Meanwhile, a similar investigation has been initiated for electricity meters in order to rectify any errors in our accounts.
- The realisation of the new connection was delayed by various factors, such as miscommunication and certain failures in handling the application.
- We see a need for the 'View on Operations' programme. The aim is to do the job first time right and to communicate the status of the work and any work-related problems to others.



Risk management



Long-term objectives by stakeholder

Customers

Employees

Shareholders and investors

Business plans

Risk assessment and management

Main risks in 2013

Strategic	- Regulatory changes - Reputation risk - Sufferance tax
Operational	- Large-scale incidents - Data management (data quality, integrity and security) - Progress on network investment projects
Financial	- Credit risk - Currency risk - Interest rate risk - Liquidity and financing risks - Risks relating to US cross-border leases
Risk themes	- Energy transition - Social issues - Compliance

To continue guaranteeing 24/7 energy provision in the regions where we operate, Alliander needs to have a good idea of the potential risks we face. We continuously seek to identify possible safety, operational and financial risks that may occur.

Risk acceptance

Risk management offers no absolute guarantee against the actual occurrence of risks but ensures that addressing them is an explicit part of running the organisation and decision-making. We accept the risks of entrepreneurship, depending on their impact and probability of occurrence, based on several criteria. These involve:

- Safeguarding the continuity of the electricity and gas networks and minimising interruptions in our regions.
- Reducing safety and environmental risks to a minimum.
- Compliance with laws and regulations.
- Adherence to internal procedures and the Alliander Code of Conduct.
- Explicit inclusion of the risk assessment process when drawing up the Alliander plan.
- Periodic review and analysis of all relevant risks and measures, including those relating to programmes and projects.

Risk category	Alliander's risk appetite
Strategic risks	<i>Medium:</i> We seek the right balance between risks and long-term ambitions
Operational risks	<i>Low:</i> We accept no risks with respect to the safety of our employees and networks <i>Medium:</i> We make a cost-benefit analysis of the effective and efficient use of resources in our business processes
Financial risks	<i>Low:</i> We have a low appetite for financial risks in order to maintain a solid financial basis, meet our financial standards and perform our social responsibilities

What are our main risks?

We see risk management as an integral part of effective management. Our definition of 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 our company's existence'.



The main risks in 2013 are listed at the head of this section.

Through the explicit implementation of risk management Alliander aims to put good governance into practice. Well-organised risk management produces the management information we need to achieve our business objectives.

By assessing the impact of risks on a business unit's objectives and the probability that they will occur, we create a risk portfolio and are able to identify the risks requiring an ongoing focus and those that are a less urgent priority. We use a five-year horizon to establish impact. The effects are translated into euros and the impact reflects the overall direct and indirect loss. Estimating the probability of a risk occurring within twelve months gives an indicative value. Impact and probability jointly determine the level of risk. Movements in risk levels are monitored in Alliander's risk portfolio.

Given their elevated level, our main risks may affect the achievement of Alliander's objectives and activities. This was reported on during the past year to the Management Board and the Supervisory Board's Audit Committee.

How do we deal with these risks?

Strategic risks

Strategic risks are those that could affect Alliander's strategic course. The trend in these risks is set in part by external factors, which means there may be uncertainty in terms of their development. The main strategic risks are explained below.

Regulatory changes

The majority of our activities are regulated, namely electricity and gas connections and transportation services, and metering services for small-scale users. If the rules on tariffs change substantially, this may affect the funding available for investment in the energy networks.

On 2 October 2013, the Netherlands Authority for Consumers & Markets (ACM) published its 'method decisions' for electricity and gas. These decisions are made up of various elements that jointly set the maximum permitted income for each network operator. Consequently, these decisions form the basis for setting our regulated tariffs for the next three years (2014-2016), which will be lower than in previous years. This seems like good news for gas and electricity consumers. However, implementation of the method decisions will make it more difficult for network operators to invest in the energy networks

as their financial scope shrinks. On top of that, investment in the energy networks is badly needed to ensure reliable, safe, sustainable and affordable energy provision in the future. As the regulator is seeking a balance between affordability and reliability of energy networks, the network operator will have fewer financial resources.

In mid-2013, the ACM also ruled on gas network losses. The administrative conversion of gas volumes for small-scale users will be altered and network losses for gas will be allocated to regional network operators. This decision will create higher costs for our network operators Liander and Endinet.

Risk measures

The risk measures include:

- Adapting Alliander's ambitions to regulatory developments.
- Dialogue with the government through proactive consultation and by responding to regulatory developments relating to network operation.
- Communication of our views on regulatory developments.
- Controlling the regulatory risks at three levels: scenario calculations and their interpretation by experts, proactively contributing to the opinion-forming process and raising regulatory awareness within the company.

Reputation risk

As a company operating at the heart of society, it is vital that we build and maintain good relationships with those around us. There is a risk that the reputation we have built up will be damaged by events that may or may not be within our control. Maintaining careful communications with stakeholders and the communities in which we operate is important in order for us to ensure responsible business operations.

Risk measures

The risk measures include:

- A reputation damage portfolio as part of the Alliander Risk Report, which is regularly discussed. This portfolio provides the Management Board and the Audit Committee of the Supervisory Board with insight into the measures related to the key 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.
- Our crisis communications organisation.



Attention to wider ranging risks

In addition to the main risks, three themes are of continuous importance for Alliander. In view of their wide-ranging nature, these themes cannot be assessed on the basis of a standard impact and probability scenario. They are therefore managed mainly through fostering permanent awareness among all involved.

The first theme concerns **energy transition**. This is a major challenge in keeping our network reliable and affordable. The most significant trend we see in the demand for capacity is the emergence of electric cars and the increased use of heat pumps. On the supply side there is a growing trend towards renewable generation, especially in the form of solar energy. These trends could have a major impact on our network. In a traditional electricity system, demand and supply must always be in balance but these trends create increasing dynamism in the networks and will lead to more frequent peaks in demand. We are exploring ways of anticipating these expected changes. For example, we are researching storage systems and capacity expansion and are seeking a dialogue with customers about their energy consumption, whereby one focus area involves giving them insight into their energy consumption.

The second theme is **social issues**. Firstly, our ambition is to ultimately neutralise our CO₂ footprint. This, in fact, involves our own energy transition. The main challenge is finding the right technically and financially feasible measures to reduce our network losses (see the Shareholders and investors section). A programme has been initiated to examine all the alternatives. Offsetting

the remaining network losses also requires firm consultation with the regulator on what network operators may and may not do. We are doing this through our Association of Energy Network Operators. A second social issue is that infrastructure managers are often reminded of the risk of declining availability of raw materials. We closely monitor movements in the prices of components and have noticed increased price fluctuations but no long-term price rises. During the year, Alliander invested in research into opportunities in the circular economy ('Doing business in a Circular Economy') to raise our knowledge level. We also joined the Green Deal Circulair procurement programme. Finally, we see a lot of official action at both European and national level on the labour participation of women and people at a disadvantage in the labour market. The pending mandatory quotas for European companies were not yet introduced in 2013. Alliander is well prepared for these quotas, thanks to its diversity policy and the Step2Work programme, which have given us many years' experience with assisting people who are at a disadvantage in the labour market. You can read more about this in the Step2Work case.

Compliance is a third theme. A deliberate and well-informed approach to legislation and regulations in a broad sense is crucial for the proper performance of our corporate social responsibility. It is inextricably linked with our operations and forms an integral part of our corporate governance. Regulation of network operators is an important compliance issue for us and is firmly embedded in the electricity and gas compliance activities. In addition, privacy legislation is high on our agenda.

Sufferance tax

The cost of sufferance tax (municipal tax for the use of public land) rose sharply in 2013, reaching € 59 million. More information is included in the Shareholders and investors section. The increase is expected to continue in 2014, meaning that Liander's tax burden will rise. These costs will largely be incorporated in tariffs, but with a delay. As a result, the working capital position will deteriorate. Depending on the timing of the levy within the tariff regulation period, up to a third of new, increased assessments may not be fully covered. Another aspect is that municipalities do not levy sufferance tax in a uniform way, leading to differences in sufferance tax rates between network operators. Alliander is therefore against sufferance tax. If a municipality levies tax on gas pipes and electricity cables, residents of other municipalities contribute through the network operation tariffs.

Risk measures

We take legal action in cases where we believe that sufferance tax is being levied incorrectly. New legislation and regulations on sufferance tax have been in preparation for some time. A bill to abolish the tax for utilities has been drawn up but the Minister of the Interior and Kingdom Relations has decided to take more time to examine alternatives and is holding the bill back in the meantime.

Operational risks

We define operational risks as those relating to the effective and efficient use of operating assets and resources in our business processes. We have a low tolerance for risk resulting from the failure of operational processes. Risks are mitigated by means of general and liability insurance, to the extent that this is available. The main operational risks are explained



below. We continued to pay considerable attention to managing operational risks during the past year. Although the risks are no less current, we see a positive trend towards a better understanding of risks, and hence opportunities for risk control.

Large-scale incidents

We aim to minimise the risk of a large-scale incident affecting essential parts of our networks and/or the safety of our employees. A core task of our network operators is keeping electricity and gas networks secure, up-to-date and future-proof for the benefit of our customers and employees.

Risk measures

We invest in energy network maintenance and replacement to keep quality and safety at a high level. During the past year, we invested € 762 million in our networks, based on integrated network plans and risk-based asset management. A risk and portfolio management system is used when preparing and updating the long-term plans. For example, in 2013, we replaced grey cast-iron pipes in many parts of the network to reduce the risk of interruptions and enhance quality.

Safety comes first when working with gas and electricity. Our approach to safety has three pillars: ensuring safety is 'top of mind' for everyone (safety awareness), identifying and improving safety at installations (safe plant) and dealing with risks in operations (safe working). This was given additional attention in various ways during the past year. Awareness of safety was created on the 'safe working at Alliander' digital platform, where employees and business partners of Alliander share experience and knowledge. In addition, we launched safety campaigns highlighting specific themes. More information is included in the Employees section.

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 escalation phases in the event of a calamity. A crisis is a situation that arises as a result of a major incident and has 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.

Data management

(quality, integrity and security)

Information we keep on our infrastructure includes the types of materials, dimensions and locations. We also keep records that are relevant for customer service. If the quality and integrity of the data is not properly secured, there is a risk that the quality of our work may be compromised. Data security is extremely important since we process confidential, privacy-sensitive data.

Risk measures

Data management was continued with undiminished vigour. During the year, various data purges were performed as part of our data enhancement programme. We perform checks on the completeness of data processing by EDSN (Energie Data Service Nederland, which facilitates administrative processes between various market parties) and we work on the principle 'everything right first time'. We also have an internal 'Privacy & Security' management system.

Cyber security is a significant issue given the increasing digitisation of our energy networks. We work closely with the central government's National Cyber Security Centre to recognise external indications of attacks at an early stage. Alliander is also one of the founders of the European Network for Cyber Security (ENCS).

Progress on network investment projects

In 2013, we achieved the target of 'progress on the 25 most important projects' (92% of the projects were completed in 2013). However, a number of large investment projects suffered delays, leading to higher costs in achieving our network plans.

Risk measures

To realise our projects, we are to some extent dependant on the parties we work with, including customers and municipalities. Together with them, we are seeking to continue making good progress in the execution of our network investment projects.

We also take various measures to ensure that our projects can be planned in greater detail. As part of our overall network planning, we identify our network-related activities and define a project portfolio when we draw up and update our long-term plans. All projects are supported by risk analyses, including the risk of delays to operations. We report progress on projects each month to allow prompt corrective action and improve completion times. Delays have not had an adverse impact on safety and the relevant projects have been rescheduled in consultation with stakeholders.



Financial risks

A strong financial base, access to capital and reliable reporting are essential for Alliander. We define financial risks as uncertainties that may affect the company's financing as well as its interest rate, currency, liquidity and tax positions. Failure to achieve our financial objectives would have a negative impact on both Alliander and its stakeholders. More information on financial risks and financial instruments can be found in the financial statements. The main financial risks are explained below. The risk trend was neutral in 2013 as we continued our policies and actions. You can read more about our policy in the Financial policy and long-term objectives section.

Credit risk

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

Risk measures

Our objective is to prevent situations in which a loss is incurred. The controls include consistent implementation of credit analysis and management throughout the organisation. The Credit Risk policy sets out in detail how we deal with credit risks. The magnitude of the credit risk arising from a transaction determines the depth of the analysis we perform.

On 1 August 2013, the mandatory suppliers' model was introduced for consumers and small-scale business customers. This new market model has resulted in a concentration of Alliander's credit exposure to energy suppliers with respect to network expenses billed periodically to consumers and small-scale business customers. Various risk management activities have been implemented to keep an eye on this risk, including periodic monitoring and reporting of the energy suppliers' risk profiles. The credit risk on banks, investment institutions and instruments relating to our cross-border lease contracts (see also Risks relating to US cross-border leases) is monitored proactively.

We did not suffer significant credit losses in 2013.

Currency risk

Currency risk occurs in relation to purchases, cash and cash equivalents, borrowings and other balance sheet positions in currencies other than the euro. Alliander identifies two types of currency risk: transaction risk and translation risk. Transaction risk concerns future cash flows and balance sheet positions in foreign currencies. Translation risk occurs when converting currencies of foreign subsidiaries to euros.

Risk measures

Alliander applies an 'exposure-based' currency policy. This involves hedging positions in foreign currency 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 functional 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 debt.

Risk measures

Our interest rate risk policy is aimed at ensuring that a minimum of 60% of our total interest-bearing debt is fixed-rate and a maximum of 40% is 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 measures

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

Risks relating to US cross-border leases

In the years 1998 to 2000, various energy companies in the Netherlands, including Alliander, entered into cross-border leases (CBL) for networks. These are long-term, complex financial transactions which have been structured in a way that the payments received at the start of the contract, which were placed on deposit and invested in securities, will in principle be sufficient (including interest received) to cover the future payment obligations (lease instalments and amounts payable upon the possible exercise of the purchase option). The main risk comes from early termination of the transaction as a result of certain contractual conditions ('events of default' or 'events of loss') when Alliander would be liable to pay the termination value. In addition, there is a credit risk on the banks, investment institutions and instruments involved in these transactions.



Comparison with 2012

The table below shows the status of a risk we discussed in the 2012 annual report but have not highlighted in this edition. We still recognise this risk, but mitigation has been strengthened, which has reduced the risk level such that it is no longer among the main risks.

Risks are assessed regularly as part of the Alliander-wide risk management process. This process ensures that new risks are identified in time and trends in existing risks are monitored along with the effectiveness of risk-mitigation measures.

Risk name	Status
Assurance of stable ICT landscape	A stable IT landscape is important for managing our networks and guaranteeing reliable services for customers. Various measures have been taken in recent years to ensure stability and they have reduced the risk. As a stable IT landscape is a basic requirement for Alliander, we continue to monitor this risk.

Risk measures

After negotiations with the US investors, three cross-border leases were terminated in 2013 along with the related obligations. The remaining risk will be monitored carefully and proactively, including by a CBL committee chaired by the Chief Financial Officer. A clear policy on the CBL contracts has been drawn up and is designed, above all, to mitigate risks. Compared with 2012, the CBL risks have declined as a result of the early termination of the three transactions and the associated reduction of the strip risk and the investment risk. At the same time, the equity strip risk in the four remaining transactions has increased as a result of rising interest rates.

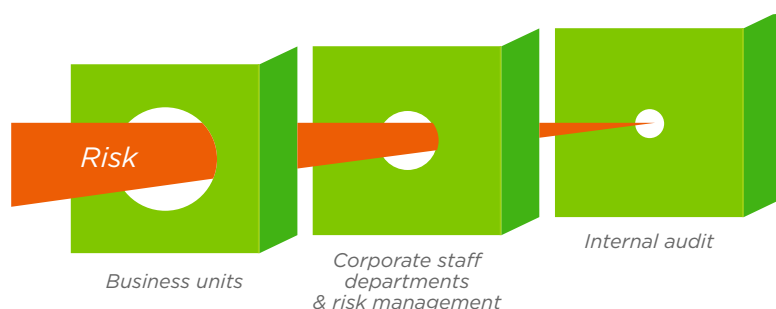
Internal control

The Alliander Business Control Framework is our internal control framework. The basis for defining an internal control framework of the key controls was formed by identifying all the reporting risks in the main business processes. Periodic testing of these controls provides a reasonable degree of assurance that the financial reports contain no material inaccuracies. The design and effectiveness of the entire set of key controls were tested in 2013. The priority in 2014 will be on further automation of the control framework.

What method does Alliander use?

Alongside the COSO ERM Model, our risk management system is based on ISO 31000. ISO 31000 sets out guidelines for risk management principles and a risk management framework. It also 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 Management Board provides proactive guidance in its attitude and behaviour in respect of risk management and internal control. Its activities in this respect include discussing the Alliander Risk Report every quarter, taking corrective action in implementing additional measures as necessary and monitoring the risk management and control system.

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 and the Supervisory Board receives a summary of the report. The Management Board provides a commentary on the risk report, which the Audit Committee incorporates in its supervision. In addition, possible adjustments to the risk management policy are put to the Supervisory Board prior to their implementation.



Risk management duties and responsibilities are distributed across three lines of defence.



Statement by the Management Board

In Control Statement

As the Management Board, we are responsible for the design and effectiveness of our risk management and control system. We evaluated the design and effectiveness of this framework in 2013, based in part on the business control information, the Internal Audit reports and the management letter from the external auditor.

The risk management and control system 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 control system 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 2013 and of the business during the 2013 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, 17 February 2014

Management Board

Peter Molengraaf, chairman
Mark van Lieshout, member



Corporate governance



Good entrepreneurship and good supervision are the twin pillars of corporate governance. Alliander seeks to maintain a transparent structure, which serves the interests of all stakeholders.

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Interview with the Supervisory Board

The energy world is undergoing radical change and key organisational choices need to be made. Choices about the company's strategy, finances and governance. The Supervisory Board oversees this process. Supervisory Board members Coby van der Linde and Jos van Winkelen comment on their role in 2013.



Jos van Winkelen



Coby van der Linde

The energy world is changing fast.
How do you monitor this?

"The playing field has become more dynamic. As members of the Supervisory Board, we increasingly find ourselves talking about scenarios for the future. No one knows the exact course the energy transition will take. This depends in part on developments in society and the government's incentive policies," says Coby van der Linde. Jos van Winkelen adds: "The Supervisory Board members all have different backgrounds and we each bring our own knowledge and experience from other companies to our supervisory role. In addition, we regularly ask managers and specialists at Alliander to bring us up to date on their plans. This provides context to our discussions. Over the years, our work has become much more of a team effort, with each of us contributing specialised expertise."

What was your main focus in 2013?

Coby van der Linde: "We obviously oversee the company's overall performance, but we also look at specific issues. Last year, our main focus was on the company's expenditures versus the investments that needed to be made. We did this, keeping a close eye on the industry standard."

In 2013, Alliander took important decisions with respect to the cost level, can you name a few?

Jos van Winkelen: "The tariffs for customers are set to fall from 2014. To realise the required investments, we need to realise structural cost savings. One consequence is the centralisation of locations. We totally understand that measures like these cause pain in the organisation. In some cases, jobs are lost or people have to travel longer distances. We were kept well-informed about the implications for the organisation, which we discussed with various parties, including the Central Works Council (CWC). There is an open relationship with the CWC, which we highly value."

**What is your view on cost control versus investing?**

"Supplying energy is a critical task for society. The network must be able to meet customer demand and increasingly customer supply at all times. That's why it is absolutely essential for Alliander to go with the times and continue investing in advancing technology," says Coby van der Linde. "One good example are the charging points for electric cars," Van Winkelen continues. "In 2013, Alliander – taking its cue from Stichting e-laad – decided to press ahead with the development of a semi-public charging infrastructure. The company must ensure that the network is ready in time to handle the surge in demand for charging points when electric transport really takes off. Alongside this development, you could say in general that reliable data communication will become increasingly important in the smart energy infrastructure of the future. With this in mind, Alliander has opted, among other things, to set up a wireless mobile telecommunication network that makes use of CDMA technology."

One issue mentioned in the Report of the Supervisory Board is cost control through economies of scale. Could you explain this?

Jos van Winkelen: "Economies of scale help keep costs low. The bigger the company, the easier it is to get things done. But size must never impede customer connectivity at local level. That must always come first." Coby van der Linde: "Helping local energy cooperatives is a social responsibility. And it also opens up new opportunities. We can learn a lot from local initiatives, which bring entirely new business models to the fore. One case in point is California, where you don't buy solar panels but rent out your roof."

The last annual report announced the appointment of a third Management Board member. How did that process go?

"The span of control for the CEO is constantly expanding, so the Management Board needs to be enlarged," Jos van Winkelen answers. "That's why the Supervisory Board has decided to enlarge its membership to three members. We are delighted that Ingrid Thijssen, with her broad administrative and social experience, is coming to reinforce the Management Board in 2014. She can focus entirely on Liander's network operator tasks within the company."

When it comes to recruiting new top executives, you are concerned about the Executives' Pay (Standards) Act (Wet Normering Topinkomens / WNT).

Coby van der Linde: "We have to compete with salaries in the private sector. The ideology behind the Act is understandable, but you must also take account of the quality you need as an organisation to deal with the complex challenges and effectively manage the evolving energy supply with its increasing impact on society. In short, the WNT and possible further steps will put a lot of pressure on the organisation, which worries us."

Finally, where does Alliander currently stand in your opinion?

"Technological and social developments are shaking up the company," says Coby van der Linde. "This creates uncertainty. We are entering a dynamic and interesting era." Jos van Winkelen adds: "Alliander is approaching the changing landscape in a sound and sensible manner. And the company is financially robust. We see Alliander as a company with great potential."



Report of the Supervisory Board

Alliander has a two-tier board structure, comprising a Management Board and a Supervisory Board. The Management Board is responsible for managing the company. The Supervisory Board is responsible for supervising the policy of the Management Board and Alliander's operations in general. It also supports the Management Board with advice. In this report, the Supervisory Board gives an account of its performance, activities and composition of the Supervisory Board and its Committees.

Report on the supervisory tasks of the Supervisory Board

The duties of the Supervisory Board comprise, among other things, the realisation of Alliander's objectives, the strategy and the risks associated with the business activities, the design and effectiveness of the risk management and control system, the financial reporting process, compliance with legislation and regulations, the relationship with shareholders and the social aspects of entrepreneurship that are relevant to Alliander.

Realisation of corporate objectives

The strategic objectives of Alliander as a whole and the contribution of the various business units to one or more of these objectives constitute the basis for the long-term plans and year plans. The Alliander Year Plan 2013 translates the strategy into short-term objectives. The Supervisory Board ascertains the extent to which Alliander succeeds in realising the strategic corporate objectives. In 2013, this assessment consisted primarily of the discussion of the quarterly reports, which provided insight into the progress made on the strategic priorities. The Supervisory Board notes with satisfaction that the objectives set for 2013 were largely achieved. The performance criteria used for the annual assessment of the Management Board are based on the corporate objectives. The outcomes of this assessment determine the variable remuneration. As regards the award of the variable remuneration, we refer to the remuneration report, which is incorporated in this annual report.

Alliander retained its solid A rating profile in 2013.

The Supervisory Board discussed various matters relating to the funding of the company. Amongst other things, the Supervisory Board approved the repurchase of the outstanding subordinated perpetual loan of € 500 million and the funding of that transaction through the issuance of a new subordinated perpetual loan of € 500 million. The issue attracted a lot of interest from European investors. In addition, the Supervisory Board looked closely at the impact on Alliander's creditworthiness of the development of results, the balance sheet ratios and the financial position. The Supervisory Board notes with satisfaction that in 2013, Standard & Poor's raised its long-term and short-term ratings for Alliander from A+/A-1 to AA-/A-1+ (stable outlook). The long-term and short-term ratings of Moody's remained unchanged at Aa3/P-1 (stable outlook). The credit rating agencies thus confirm that Alliander is a solid company.

Strategy and risks

Alliander's growth strategy and the discussion of the strategic options with the Management Board were high on the Supervisory Board's agenda. In this connection, Alliander commissioned management consultancy McKinsey to carry out a study into the company's opportunities to realise economies of scale within the context of the energy transition. It is clear that this energy transition will have a significant impact on the local electricity networks and will require substantial investments. Economies of scale are vital to keep investments affordable. McKinsey endorses Alliander's vision that a larger scale can yield significant cost reductions. By far the biggest cost reductions can be achieved through far-reaching consolidation in the Netherlands. The next phase



in the consolidation process of Dutch regional network companies will materialise in due course. However, the realisation of this process demands patience and depends partly on the legal proceedings surrounding the Network Management Act (Splitsingswet). Until then, we will continue to pursue far-reaching cooperation aimed at sharing investments and costs as well as explore other avenues for optimising costs. One other finding of the aforementioned study was that the implementation of smarter networks yields benefits in all future scenarios and must be accelerated. Wireless telecommunication plays a pivotal role in this connection. Alliander is therefore working hard to set up its own wireless telecommunication network. This CDMA network will become a vital link in communications with various applications in the energy network, such as smart meters and intelligent medium-voltage units. The Supervisory Board subscribes to the need for a rapid drive towards smarter networks. Finally, the potential for economies of scale through further growth was also explored in Germany.

The Supervisory Board was also informed about the start-up of activities aimed at electric mobility, sustainable area development and sustainable housing. These activities fit well with Alliander's ambition to respond to energy trends, facilitate the energy transition and promote a more sustainable society.

In 2013, a large-scale programme was started up aimed at creating a more efficient and effective operational organisation. The progress of this programme was discussed in several meetings. The Supervisory Board subscribes to the importance of the proposed measures and will keep close track of progress made.

Design and effectiveness of risk management and control system

At the meeting in December, the findings on internal control were discussed on the basis of the external auditor's management letter. The most important observations in the management letter were that major steps had been taken on various fronts and that the internal control environment had been enhanced, but that further improvements were needed. In order to place the necessary and full focus on key strategic themes, it is imperative that certain significant findings from previous periods are completely resolved. The Supervisory Board discussed these findings with the Management Board and there is consensus about the actions to be taken. The expectation is that the majority of the findings will be resolved in 2014. The Supervisory Board took note of the 'in control' reports of the Internal Audit Department about the status of audits. The progress of these audits is monitored by the Supervisory Board every six months. The Supervisory Board notes with satisfaction that the Business Control Framework (BCF) for the financial controls was embedded in

the financial organisation in the reporting year, thus further improving the control of the financial processes.

The Supervisory Board has no indications that Alliander's risk management and control system failed to operate effectively in respect of the financial reporting control objectives in the reporting year.

In 2013, the Supervisory Board also periodically discussed the risk reports and reflected on Alliander's principal risk exposures. In addition, consideration was given to the company's risk appetite. The Supervisory Board came to the general conclusion that, based on the risk management policy, the Management Board weighs up the risks in a well-considered manner, implements adequate controls and devotes structural attention to the further improvement of the risk management system. For further details on Alliander's risk management, please see the Risk management section of this report.

Financial reporting

The Supervisory Board discussed in detail Alliander's annual report and financial statements for 2012 in the presence of the external auditor, including the independent auditors' report and proposed profit appropriation. The Supervisory Board extensively reviewed Alliander's 2013 half-year report as well, including the external auditors' report on the findings regarding the interim report. This discussion, too, was attended by the external auditor. The findings of the interim audit, the management letter for the year 2013 and the actions taken on the findings were also discussed with the external auditor. In addition, the operational year plan 2014 was reviewed and approved, and the business plan 2014-2018, including various growth scenarios, was discussed. The Audit Committee of the Supervisory Board carried out intensive preparatory work on all these matters.

Compliance with legislation and regulations

In conformity with the Electricity Act 1998 and the Gas Act, the Netherlands Authority for Consumers & Markets (ACM) supervises the network operators' compliance with statutory obligations. The ACM is vested with supervisory and enforcement powers, including the power to request information and impose sanctions, such as administrative penalties. In this connection, the Supervisory Board was informed about the ACM's ongoing investigations. The Supervisory Board also received information on investigations of the State Supervision of Mines into the company's compliance with the Gas Act as regards the safety of gas transport networks. In addition, the half-yearly 'Fraud & Incidents' reports of the Internal Audit Department, which detail violations of the Code of Conduct applicable within Alliander, were discussed in the Audit Committee's meetings in the presence of the Director of Internal Audit and the external auditor.



Relationship with shareholders

The Supervisory Board realises the importance of understanding the key issues affecting the provinces and municipalities holding shares in Alliander and of ensuring sufficient support for the company's strategy and policy. The most intensive contact with shareholders is at the shareholders' meeting. Alliander therefore attaches great importance to a high rate of shareholder participation in these meetings. The full Supervisory Board attended the annual General Meeting of Shareholders on 27 March 2013. In addition, the Supervisory Board is of the opinion that contacts between the company and shareholders outside the context of formal shareholder meetings can also be important, both to the company and to the shareholders. Alliander has outlined a policy for bilateral contacts between the company and its shareholders, which is posted on Alliander's corporate website. For an overview of the contacts with shareholders in 2013, reference is made to the Shareholders and investors section of this annual report.

Relevant CSR aspects

The Supervisory Board is satisfied with the Management Board's ambitions regarding:

- Alliander's role in promoting energy sustainability. Alliander participates in several research projects (power-to-gas, green gas and hydrogen);
- the reduction of the company's own CO₂ footprint, for instance by setting a stricter emissions target in the lease scheme and initiatives to reduce electricity and gas network losses;
- the creation of awareness within the organisation by including CSR objectives (relating to e.g. women in leadership positions, employees at a disadvantage in the labour market and socially responsible procurement) as non-financial KPIs (Key Performance Indicators).

The Supervisory Board notes that corporate social responsibility was integrated further into Alliander's strategy and operations in 2013, and believes that Alliander performs well in this area. This view was supported by the external recognition that the company received in the form of the 2013 HIER Climate Medal. The climate medals are awarded annually by the HIER Climate Campaign to leaders in sustainability and innovation. Alliander received the medal for its role in promoting a more sustainable energy supply.

Each year, the external auditor reviews the sections in the annual report that relate to corporate social responsibility. This opinion is included in the Assurance report, which forms part of the annual report.

Other subjects

During the reporting year, various subjects were put to the Supervisory Board for a decision. These included the continuation of Alliander's current dividend policy, the agenda of the annual General Meeting of Shareholders (including the proposal to amend Alliander's Articles of Association), the agreement with the former shareholders of Endinet on the so-called settlement clauses, the nomination for the reappointment of Ms Van der Linde and Mr d'Hondt and for the appointment of Ms Spies to the Supervisory Board and the nomination for the reappointment of the external auditor of Alliander. The company issued a European tender for audit services and PricewaterhouseCoopers Accountants N.V. emerged as the best candidate for Alliander. The Supervisory Board is of the opinion that the tender was conducted in a careful and professional manner. In addition, the Supervisory Board determined the variable remuneration for 2012 as well as the objectives for the short-term variable remuneration of the Management Board members for 2013 and for their long-term variable remuneration for the 2013 - 2015 period. The decision-making on these matters was prepared by the Selection, Appointment and Remuneration Committee of the Supervisory Board.

The Supervisory Board obtained information on the progress on information security, the stability of the IT infrastructure, various safety aspects and the measures to control cyber crime risks.

The outcomes of the annual employee survey and customer satisfaction survey were presented to the Supervisory Board. The Supervisory Board is proud that in 2013, Alliander once again ranked among the Top 50 Best Employers of the Netherlands with more than 1,000 employees.

Other issues discussed in the Supervisory Board were:

- the way in which Alliander uses technical staff capacity;
- the performance of the members of Alliander's management team;
- regulatory matters (including the relationship with the Netherlands Authority for Consumers & Markets, the method decisions for the regional gas and electricity network operators for the period 2014 to 2016 and the tariffs for 2014);
- the set-up of Alliander's crisis organisation.



Composition and reporting of committees

The Supervisory Board has established two committees from among its members, namely an Audit Committee and a Selection, Appointment and Remuneration Committee. These committees prepare the Supervisory Board's decision-making on the subjects in their area of responsibility. The Supervisory Board as a whole is responsible for its decisions that have been prepared by the committees. The composition of the committees is as follows:

- Audit Committee:
 - Mr Van Winkelen (chairman)
 - Ms Van der Linde
 - Ms Van der Veer-Vergeer
- Selection, Appointment and Remuneration Committee:
 - Mr Briët (chairman)
 - Mr d'Hondt
 - Ms Spies¹

Audit Committee

The composition of the Audit Committee is in accordance with the provisions of the Dutch Corporate Governance Code (hereinafter: the Code), with Ms Van der Veer-Vergeer acting as financial expert within the meaning of best practice provision III.3.2 of the Code.

The Audit Committee met on six occasions in 2013 in the presence of the CFO. The meetings were also attended by the CFO, the external auditor, the Director (or Manager) Internal Audit and the Manager Corporate Control. The committee spoke once with, respectively, the Director of Internal Audit and the external auditor without the attendance of the other regular participants in the Audit Committee meetings. No special issues emerged from these talks.

The Audit Committee discussed in detail the annual figures, the quarterly and half-yearly figures, the auditors' report, the external auditors' findings regarding the half-yearly report and the management letter, before submitting these to the full Supervisory Board for its consideration. The same applied to the Year Plan 2014 and the business plan 2014-2018.

The committee gave the Supervisory Board a positive opinion on the proposal to repurchase the outstanding subordinated perpetual loan of € 500 million and the funding of that transaction through the issuance of a new subordinated perpetual loan of € 500 million. This results in a lower coupon and represents a beneficial exchange.

The Audit Committee discussed the reports of the Internal Audit Department and approved the internal audit year plan 2014. The committee also handled the engagement for the

performance of regular audit work and non-audit work by the external auditor. In addition, it approved the elaboration of the engagement in the external auditor's audit plan for the audit of Alliander's financial statements for 2013.

Early in 2013, the European tender for audit services with effect from the 2013 financial year was completed. After an extensive comparison of the tenders from various audit firms, the Audit Committee advised the Supervisory Board early in the year to nominate PricewaterhouseCoopers N.V. to the General Meeting of Shareholders for reappointment as the external auditor of Alliander for a period of three years (audit years 2013, 2014 and 2015).

The Audit Committee also extensively discussed Alliander's risk reports and risk appetite, devoting special attention to the development of the cross-border leases. Moreover, the committee addressed several other subjects within its area of responsibility, particularly Alliander's dividend policy, the financial obligations arising from the mandatory supplier model, the financial policy and the treasury activities, the tax position, broad-based assurance, integrated reporting and compliance-relevant areas of risk.

The Audit Committee reported on its meetings and findings to the full Supervisory Board.

Selection, Appointment and Remuneration Committee

The composition of this committee is in accordance with the provisions of the Code. The Committee met on three occasions in 2013, partly in the presence of the chairman of the Management Board. 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 2012. A proposal was also made to the Supervisory Board in relation to the objectives for the short-term variable remuneration for 2013 and for the long-term variable remuneration for the 2013 - 2015 period.

In addition, the Selection, Appointment and Remuneration Committee prepared the remuneration report for 2012. The remuneration report sets out the shareholder-approved remuneration policy for the Management Board and Supervisory Board of Alliander. In the remuneration report, the Supervisory Board accounts for the implementation and the outcomes of the remuneration policy for the Management Board in the relevant reporting year. It describes the performance objectives that determine the payment of

¹ Following the resignation of Ms Irik (see below in 'Composition of Supervisory Board'), Ms Spies joined the Selection, Appointment and Remuneration Committee in May 2013.



the variable remuneration components and indicates the relative relationships between the performance objectives. The remuneration of the Supervisory Board is also reported on. Furthermore, the committee conducted individual appraisal interviews with the members of the Management Board as part of the assessment of the Board's performance.

Another subject of recurring discussion concerned the options for responding to the Public and Semi-Public Sector Executives' Pay (Standards) Act (Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector / WNT).

The committee prepared the nominations for the reappointment of Ms Van der Linde and Mr d'Hondt and the nomination for the appointment of Ms Spies to the Supervisory Board.

The Selection, Appointment and Remuneration Committee was also involved in the preparations for and execution of the recruitment and selection process for a third member of the Management Board. This process culminated in the appointment of Ms I. Thijssen to the Management Board in early 2014.

In addition, the committee prepared the method to be used for the Supervisory Board's own assessment of its performance in 2013.

The committee made no use of external remuneration consultants in the reporting year.

The Selection, Appointment and Remuneration Committee reported on its meetings and findings to the full Supervisory Board.

Internal organisation

Composition of the Management Board

The composition of the Management Board underwent no changes in 2013. Mr P.C. Molengraaf, chairman of the Management Board and CEO, and Mr M.R. van Lieshout, member of the Management Board and CFO, jointly constitute the Management Board. Their career details and relevant other positions are included elsewhere in this annual report.

In 2013, the Supervisory Board decided to expand the Management Board with a third member. The multiple challenges facing the company demand a strengthening of the managerial capacity at Management Board level. The third member of the Management Board will carry overall responsibility for the network operator Liander and a profile was drawn up to that end. The firms enlisted to provide recommendations and advise on the selection of candidates were emphatically requested to explore the availability of

suitable female candidates for the vacancy. Upon the nomination of the Selection, Appointment and Remuneration Committee, the Supervisory Board decided to appoint Ms I. Thijssen to the Management Board with effect from 1 March 2014, based on her broad experience in the areas of service and management. Thanks to her appointment, the Management Board now has the required diversity, and Alliander fulfils the objective of the Management and Supervision Act (Wet bestuur en toezicht) that at least 30% of the seats on the Management Board should be occupied by women. The Supervisory Board is delighted that Ms Thijssen will strengthen the Management Board of Alliander.

None of the Management Board members hold more than two Supervisory Board positions in large legal entities within the meaning of the Management and Supervision Act. Nor do any of the members act as chairman of a Supervisory Board. This is in accordance with the Management and Supervision Act and the Code.

The Supervisory Board is not aware of any conflict of interest between the company and members of the Management Board, as referred to in the best practice provisions II.3.1 to II.3.4 of the Code.

Composition of the Supervisory Board

On 31 December 2013, the composition of the Supervisory Board was as follows: E.M. d'Hondt (chairman), J.C. van Winkelen (vice-chairman), F.C.W. Briët, Ms J.G. van der Linde, Ms J.W.E. Spies and Ms A.P.M. van der Veer-Vergeer.

Career details of the members of the Supervisory Board, including chief and relevant other positions, can be found elsewhere in this annual report.

Ms Irik retired by rotation from the Supervisory Board at the General Meeting of Shareholders held on 27 March 2013. Ms Irik had served the maximum tenure of office, as laid down in the By-laws of the Supervisory Board, and was therefore not available for reappointment. Ms Irik was also a member of the Selection, Appointment and Remuneration Committee. The Supervisory Board thanks Ms Irik for her many years of service and dedication to the company. Ms Irik had been appointed on the basis of the Central Works Council's enhanced right of recommendation. Upon her departure, it was agreed that Mr Briët would be deemed to have been appointed on the basis of the Central Works Council's enhanced right of recommendation. The vacancy was filled in this manner and the number of members of the Supervisory Board was reduced from seven to six. At the General Meeting of Shareholders of 27 March 2013, the shareholders approved this change and the number of members of the Supervisory Board was set at six.



Ms Van der Linde and Mr d'Hondt retired by rotation from the Supervisory Board and were available for reappointment. Both were reappointed to the Supervisory Board at the General Meeting of Shareholders of 27 March 2013.

Finally, during this same meeting the shareholders appointed Ms Spies to the Supervisory Board for a term of four years. Ms Spies was nominated on the strength of her extensive knowledge and experience in the field of political and administrative relations. These attributes are considered of great value for the Supervisory Board and for Alliander. This nomination took place in accordance with the enhanced right of recommendation of the shareholders. The appointment fills the vacancy resulting from the decease of Mr Ybema.

Profile, competences and diversity

A profile was drawn up for the Supervisory Board to provide a guideline for its composition and the appointment and reappointment of its members. The profile can be viewed on the corporate website of Alliander. The members of the Supervisory Board are appointed on the basis of criteria set out in the profile. The aim is to achieve a complementary and diverse composition in terms of background, age, gender and experience. The Supervisory Board has a diverse composition. The members have a background in different sectors of industry, including business and financial services, as well as government and the public sector. They have acquired professional knowledge and experience across a broad spectrum of fields and roles, for instance as a former CEO, former minister, management board adviser and supervisory board member. Their ages also vary, with their years of birth ranging from 1944 to 1966. The male-female ratio in the Supervisory Board is 50/50 and meets the diversity target stated in the Management and Supervision Act.

None of the Supervisory Board members hold more than five Supervisory Board positions at listed Dutch companies, therefore Alliander complies with provision III.3.4 of the Code. In addition, none of the Supervisory Board members hold more than five Supervisory Board positions in a large legal entity, as referred to in the Management and Supervision Act.

Retirement schedule

The retirement schedule for the Supervisory Board is as follows:

	Year of appointment	Year of first reappointment	End of current term
Mr E.M. d'Hondt (chairman)	2009	2013	2017
Mr J.C. van Winkelen (vice-chairman)	2009	2011	2015
Mr F.C.W. Briët	2009	2011	2015
Ms J.G. van der Linde	2009	2013	2017
Ms J.W.E. Spies	2013		2017
Ms A.P.M. van der Veer-Vergeer	2009	2012	2016

Quality assurance of supervision

Evaluation

The table below indicates the progress made on the improvement and action points from the internal assessment of our performance for 2012.

Improvement/action point	Progress
Better distribution of workload between Audit Committee and Supervisory Board	An even more focused assessment is made of themes / agenda items that can be dealt with directly in the full Supervisory Board.
Promote financial expertise within the Supervisory Board	Effective from 2014, a learning programme that also comprises finance-related subjects will be launched for the Supervisory Board. To ensure that sufficient financial knowledge and expertise are available within the Supervisory Board, this aspect will receive specific attention when future vacancies arise.
Determine desired size of Management Board	The Supervisory Board has decided to expand the Management Board to three members.
React on the Public and Semi-Public Sector Executives' Pay (Standards) Act (WNT)	An approach has been determined for responding to the further tightening of the WNT.

This year, the annual self-assessment of the performance of the Supervisory Board, its committees and its individual members was carried out under external supervision. The self-assessment consisted of the following components:

- individual completion of an online questionnaire (EvaLite), followed by an analysis of the answers, which are summarised in a clear report. The members of the Management Board also completed the questionnaire;
- discussion of the report in the assessment meeting without the Management Board;
- determination of improvement and action points.



During the assessment meeting, there was an exchange of views in an open atmosphere about several themes in particular. These included the long-term focus of the Supervisory Board's oversight role, the formulation of the strategy and the monitoring of its implementation, the priority-setting process and the need for more in-depth discussion. The balance between what should be discussed in the committees of the Supervisory Board and the full Supervisory Board was extensively analysed. The conclusion was that more financial themes, in particular, should be dealt with by the full Board, given their strategic impact and implications for the overall business operations. In addition, a stronger representation of specific financial expertise in the Audit Committee was deemed appropriate. The interaction between the Supervisory Board and the Management Board was also considered, focusing on whether the Supervisory Board had acted sufficiently as a sounding board, alongside its formal supervisory role. This aspect will receive specific attention in the coming year.

Education

In 2013, an afternoon seminar was organised. Energy experts from the Clingendael Institute gave two lectures about the advent of shale gas fracking and its impact on the European gas market. The Supervisory Board found the seminar both useful and instructive and it was decided that an annual learning programme would be set up with effect from 2014. The subjects will be selected according to their topical relevance and the knowledge needs within the Supervisory Board. One Supervisory Board member started the NCD-Nyenrode Supervisory Director Cycle in 2013.

After their appointment, new Supervisory Board members follow an extensive induction programme. In 2013, following her appointment, Ms Spies attended an induction programme focused on the company's organisation and activities as well as the role of the Supervisory Board. In addition, Ms Spies received a guided tour in the operations centre in Arnhem and had informative talks with the executive committee of the Central Works Council as well as a number of key officers within Alliander.

Independence

The Supervisory Board is specifically composed to ensure that members can act independently and critically vis-à-vis Alliander, each other, the Management Board and the various partial interests. Each member of the Supervisory Board meets the independence requirements as contained in the Code (provisions II.2.1 and III.2.2).

Ms Van der Linde is not independent as prescribed in Section 11 (2b) of the Electricity Act 1998 and Section 3 (2b) of the Gas Act. All other members of the Supervisory Board are independent in the sense of these Acts. This means that none of them have a direct or indirect connection with an organisational entity that produces, procures or supplies electricity or gas.

The Supervisory Board has no knowledge or indication of any conflict of interest between the company and members of the Supervisory Board (as referred to in provisions III.6.1 to III.6.3 of the Code), or between the company and a shareholder holding at least 10% of the shares in the company (as referred to in provision III.6.4 of the Code).

Other business

Meetings

In 2013, the Supervisory Board held seven scheduled meetings. In addition, the Supervisory Board and the Management Board held two ad hoc meetings covering various subjects, including the growth strategy. Prior to each scheduled meeting, the Supervisory Board met without the attendance of the Management Board members. The full Management Board was present at all these meetings. In addition, in early April the Supervisory Board paid a working visit to Berlin, together with the members of the Management Board and several representatives of major shareholders. The key points of the working visit were the German energy market, German energy law and Alliander's activities in that country.

The attendance of the Supervisory Board members at the meetings is shown in the overview below.

Attendance at meetings in 2013

	E.M. d'Hondt	J.C. van Winkelen	F.C.W. Briët ¹⁾	J.B. Irik ²⁾	J.G. van der Linde	J.W.E. Spies ³⁾	A.P.M. van der Veer-Vergeer
Supervisory Board	9/9	9/9	6/9	2/2	9/9	7/7	9/9
Audit Committee	n/a	6/6	n/a	n/a	6/6	n/a	6/6
Selection, Appointment and Remuneration Committee	3/3	n/a	3/3	1/1	n/a	1/1	n/a

¹⁾ Mr Briët was temporarily absent for health reasons.

²⁾ Ms Irik retired with effect from 27 March 2013.

³⁾ Ms Spies was appointed with effect from 27 March 2013 and was appointed to the Selection, Appointment and Remuneration Committee with effect from 21 May 2013.



Mr J. Reezigt, Director of General Affairs, and Ms M.M.A. de Blik, Manager of the Corporate Secretariat, act as secretary and deputy secretary of the Supervisory Board, respectively. The meetings are prepared in consultation with the chairman of the Supervisory Board.

The Supervisory Board received all the information it required for the performance of its task from the Management Board, the Internal Audit Department and the external auditor. In addition, employees regularly attended meetings of the Supervisory Board when a subject within their specific area of responsibility or expertise was on the agenda.

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 members attended two meetings, in different compositions, between the Management Board and the Central Works Council. The customary annual theme meeting of the Supervisory Board with the Central Works Council, in the presence of the Management Board, was again held in 2013. One of the issues discussed was the implementation of Alliander's career centre activities. The contacts with the Central Works Council are highly appreciated.

Compliance with Corporate Governance

The three core elements of Alliander's corporate governance are integrity, transparency and accountability. The Corporate governance section of this annual report outlines Alliander's corporate governance structure and compliance with the Code. Any departures from the provisions are explained.

No substantial changes were made to the governance structure in the reporting year. However, the By-laws of the Management Board and the Supervisory Board were adjusted in line with the Management and Supervision Act, which entered into force on 1 January 2013. The Act contains a provision about a balanced representation of men and women in the Management Board and Supervisory Board and imposes a limit on the maximum number of management and supervisory board positions that can be combined. The Act also includes a new conflict-of-interest regulation. Partly in connection with this latter point, it was proposed during the General Meeting of Shareholders on 27 March 2013 to bring Alliander's Articles of Association into line with recent legislation. The General Meeting of Shareholders resolved to amend Alliander's Articles of Association in conformity with the proposal.

Financial statements

The Supervisory Board hereby submits the annual report, including the financial statements, compiled by the Management Board for the financial year 2013. The financial statements were audited by PricewaterhouseCoopers Accountants N.V., which issued an unqualified opinion.

The Audit Committee extensively discussed the financial statements with the external auditor, in the presence of the CFO and the Director of Internal Audit. The Supervisory Board then discussed the financial statements with the Management Board, in the presence of the external auditor, and took note of the Audit Committee's findings.

Based on the consultation held in this connection, the Supervisory Board is of the opinion that this annual report meets all statutory provisions as well as the governance and transparency requirements. It forms a good basis for the Supervisory Board to account for its supervision during the year. The members of the Supervisory Board signed the financial statements in order to comply with their statutory obligation under Section 2:101 (2) of the Dutch Civil Code.

We recommend that the General Meeting of Shareholders adopt the financial statements for 2013, including the proposed profit appropriation and the dividend proposal for 2013, at the meeting on 2 April 2014.

In addition, we request the General Meeting of Shareholders to discharge the Management Board for their management and the members of the Supervisory Board for their supervision in the year 2013.

A final word

Lastly, the Supervisory Board would like to express its gratitude and appreciation to the Management Board and all Alliander employees for their hard work and the results achieved in 2013.

Arnhem, 17 February 2014

Supervisory Board

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



Members of the Supervisory Board



From left to right: Franswillem Briët, Ada van der Veer, Jos van Winkelen, Liesbeth Spies, Ed d'Hondt, Coby van der Linde.

Mr E.M. d'Hondt (1944)

Chairman

Dutch, first appointed to the Board on 30 June 2009

Mr J.C. van Winkelen (1945)

Vice-chairman

Dutch, first appointed to the Board on 30 June 2009

Mr F.C.W. Briët (1947)

Member

Dutch, first appointed to the Board on 30 June 2009

Ms J.W.E. Spies (1966)

Member

Dutch, first appointed to the Board on 27 March 2013

Ms J.G. van der Linde (1957)

Member

Dutch, first appointed to the Board on 29 October 2009

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

Member

Dutch, first appointed to the Board on 30 June 2009

**Mr E.M. d'Hondt (1944)***Chairman*

Dutch, first appointed to the Board on 30 June 2009

Current term ends in: 2017

Alliander committees: member of the Selection, Appointment and Remuneration Committee

Relevant previous positions: Chairman of VSNU (Association of Universities in the Netherlands), Mayor of Nijmegen

Relevant other positions: chairman of the Supervisory Board of Brink Groep B.V., member of the Supervisory Board of BMC Groep B.V.¹, Board chairman of the Netherlands Association of Municipal Health Departments and GHOR Netherlands, chairman of the Line Committee of the New Dutch Waterline, Board chairman of the Montesquieu Foundation, Board member of the Academy for Legislation, member of the Advisory Board of Netherlands Health Insurers

Mr J.C. van Winkelen (1945)*Vice-chairman*

Dutch, first appointed to the Board on 30 June 2009

Current term ends in: 2015

Alliander committees: chairman of the Audit Committee

Relevant previous positions: chairman of the Management Board of Vitens N.V., Director of N.V. Nuon Water

Relevant other positions: chairman of the Supervisory Board of Douma Staal B.V., board member of the Supervisory Board of Water and Electricity Company Bonaire, vice-chairman of the Supervisory Board of Wetsus Centre of Excellence for Sustainable Water Technology, adviser to Hak N.V.

Mr F.C.W. Briët (1947)*Member*

Dutch, first appointed to the Board on 30 June 2009

Current term ends in: 2015

Alliander committees: chairman of the Selection, Appointment and Remuneration Committee

Relevant previous positions: chairman of the Management Board of De Goudse Verzekeringen N.V., member of the Management Board of Koninklijke Hoogovens/Corus, Board chairman of Unilever Nederland B.V.

Relevant other positions: chairman of the Supervisory Board of Coöperatieve Bloemenveiling FloraHolland U.A., member of the Supervisory Board of Monuta Holding N.V.¹, Board chairman of Stichting Pensioenfonds van de Metalektro (PME)

Ms J.G. van der Linde (1957)*Member*

Dutch, first appointed to the Board on 29 October 2009

Current term ends in: 2017

Alliander committees: member of the Audit Committee

Profession / chief position: Director of Clingendael

International Energy Programme

Relevant other positions: Professor of Geopolitics and Energy at the University of Groningen, member of the General Energy Council, member of the Supervisory Board of Wintershall Nederland B.V.¹, member of the International Advisory Board of KAPSARC

Ms J.W.E. Spies (1966)*Member*

Dutch, first appointed to the Board on 27 March 2013

Current term ends in: 2017

Alliander committees: member of the Selection, Appointment and Remuneration Committee

Relevant previous positions: Minister of the Interior and Kingdom Relations in the Rutte 1 government, member of the Provincial Executive of Zuid-Holland, member of the Dutch House of Representatives

Relevant other positions: Board member of the Dutch Foundation for Consumer Complaints, member of the Advisory Board of Fakton B.V., member of the Supervisory Board of the Regional Broadcasting Foundation West, ambassador for intermunicipal cooperation in the field of decentralisation in the social domain, member of the Supervisory Board of CVO (Association for Christian Secondary Education) in the Rotterdam area

Ms A.P.M. van der Veer-Vergeer (1959)*Member*

Dutch, first appointed to the Board on 30 June 2009

Current term ends in: 2016

Alliander committees: member of the Audit Committee

Profession / chief position: management consultant on strategy and governance / Director of Stranergy Consultancy

Relevant previous positions: CEO of Currence Holding B.V., CEO of KPN Business Solutions Divisions, member of the Executive Board of Achmea Bank Holding N.V., Board chairman of Staalbankiers N.V.

Relevant other positions: member of the Supervisory Board of LeasePlan Corporation N.V., member of the Supervisory Board of the Netherlands Public Broadcasting Company ¹, member of the Supervisory Board of the Stomach, Liver and Bowel Foundation, adviser for the National Register of Supervisory Directors and Regulators, Board member of Stichting Preferente Aandelen Nedap, core team member of the Supervisory Director Programme ESAA/Erasmus University

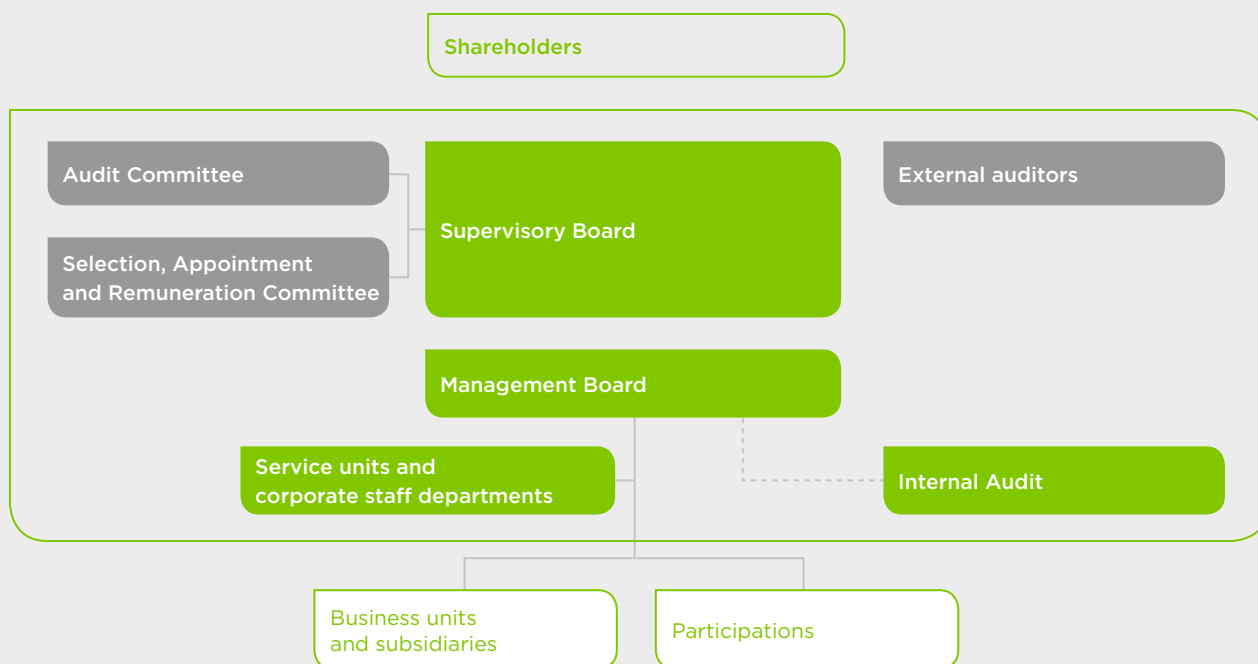
1 Note on relevant other positions:

All members of the Supervisory Board meet the requirements of the Dutch Corporate Governance Code (best practice provision III.3.4) and of the Management and Supervision Act (Section 2:252a sub 1 of the Dutch Civil Code) regarding the maximum number of supervisory board positions. Other positions at institutions that are relevant under the Management and Supervision Act are printed in bold. None of the members of the Supervisory Board hold another position at a Dutch listed company.



Corporate governance

The governance structure of Alliander is as follows:



Integrity, transparency and accountability are the core elements of good corporate governance. Hence our decision to voluntarily apply the Dutch Corporate Governance Code¹ (hereinafter: the Code).

General

Corporate governance is about the way in which the relationship between the Management Board, the Supervisory Board and the shareholders is structured. As a large company with a pivotal role in Dutch society, we attach great importance to a transparent corporate governance structure. Management and supervisory board members are therefore transparent in how they account for the company's strategy, risk management and results to all stakeholders.

Alliander N.V. is a public limited liability company under Dutch law. It has a two-tier governance model, where the Management Board and the Supervisory Board constitute two separate bodies. The Boards act independently of each other and render account of their activities to the General Meeting of Shareholders. The Alliander shares are held directly or indirectly by Dutch provinces and municipalities and are not listed on the stock exchange.

On these grounds Alliander does not formally fall within the scope of the Code. However, we regard the Code as a good basis for ensuring that the duties and responsibilities of our governance bodies are performed in a socially responsible manner. More information about the duties and responsibilities of these bodies can be found on the Alliander website (alliander.com).

Management Board

The Management Board is tasked with the day-to-day management of Alliander. Its responsibilities include the realisation of the objectives, the strategy and the associated risk profile, the results and the social aspects of entrepreneurship relevant to Alliander. In addition, the Management Board's remit also extends to compliance with relevant legislation and regulations, the management of the risks associated with the business activities and the financing of the company. The Management Board is accountable to the Supervisory Board and the General Meeting of Shareholders.

¹ The full text of the Dutch Corporate Governance Code can be found at www.commissiecorporategovernance.nl.



The Management Board fulfils its tasks with a view to promoting the interests of the company and all its stakeholders. The members of the Management Board are appointed by the Supervisory Board. Information on the remuneration of the Management Board members is contained in the remuneration report, which is incorporated in this annual report.

Supervisory Board

The Supervisory Board is responsible for supervising the policy of the Management Board and Alliander's operations in general. Further, the Supervisory Board acts as both the advisory body and the employer of the Management Board. The members of the Supervisory Board are appointed by the General Meeting of Shareholders.

Information on the remuneration of the Supervisory Board members is contained in the remuneration report, which is incorporated in this annual report.

Supervisory Board Committees

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.

- The Audit Committee directly supervises all matters relating to financial strategy and performance, including the selection of and the relationship with the external auditor, the effectiveness of the accounting systems, financial publications and all aspects relating to the risk management and control system. In addition, the Audit Committee monitors the role and performance of the Internal Audit Department.
- The responsibilities of the Selection, Appointment and Remuneration Committee include the preparation of the selection and nomination of candidates for appointment or reappointment to the Supervisory Board and the Management Board. This committee also advises the Supervisory Board on the remuneration policy to be pursued for the members of the Supervisory Board and Management Board and the remuneration of the individual members.

General Meeting of Shareholders

All the Alliander shares are held directly or indirectly by Dutch provinces and municipalities. The major shareholders are the Dutch provinces of Gelderland, Friesland and Noord-Holland and the municipality of Amsterdam. The shareholders of Alliander exercise their rights via the annual and extraordinary General Meetings of Shareholders.

Alliander holds a General Meeting of Shareholders at least once a year. Among other things, the shareholders meeting adopts

the financial statements and has powers in relation to the appointment of members of the Supervisory Board. An overview of the principal powers of the General Meeting of Shareholders can be found on the Alliander website (alliander.com).

External auditor

The external auditor performs the audit of the consolidated and company financial statements of Alliander and the statutory financial statements of Alliander's subsidiaries. The external auditor draws up the auditors' report and the management letter and issues the audit opinion for Alliander's financial statements. The external auditor's appointment and engagement for the audit of the financial statements as drawn up by the Management Board are subject to the approval of the General Meeting of Shareholders. The Supervisory Board makes a nomination for this purpose, based on advice received from both the Audit Committee and the Management Board. At the 2013 General Meeting of Shareholders, PricewaterhouseCoopers Accountants N.V. was reappointed as the external auditor for a period of three years (audit years 2013, 2014 and 2015).

The most important external legislation and regulations in the field of corporate governance:

- Book 2 of the Dutch Civil Code;
- Dutch Corporate Governance Code 2008;
- Decree establishing further instructions concerning the content of the annual report (Besluit tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag);
- Transparency Directive;
- Audit Profession Act (Wet op het accountantsberoep / Wab);
- Financial Supervision Act (Wet op het financieel toezicht / Wft);
- Works Councils Act (Wet op de ondernemingsraden / WOR);
- Public and Semi-Public Sector Executives' Pay (Standards) Act (Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector / WNT).

The most important internal regulations in the field of corporate governance:

- Articles of Association;
- By-laws of the Supervisory Board and its committees;
- By-laws of the Management Board;
- Code of Conduct;
- Whistleblower policy;
- Policy on bilateral contacts with shareholders.

These documents can be found at alliander.com.



Internal audit

The Internal Audit Department of Alliander (Internal Audit) is an independent, objective function. Internal Audit provides both the Management Board and the management with additional assurance on the control, effectiveness, efficiency and compliance of the business activities. Internal Audit reports twice a year to the Management Board and the Audit Committee on the status of audits initiated and completed.

Compliance with the Code in 2013

Certain parts of the code are not applicable to Alliander, because it is a public limited liability company with a two-tier structure, the shares are held by Dutch lower government authorities, and the shares are not listed on the stock exchange. While the overwhelming majority of the provisions are applied in so far as applicable, Alliander departs from certain principles and best practice provisions. In conformity with the Corporate Governance guidelines, these departures from the code are explained below.

Provisions not applying to Alliander

- 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 governance 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 rights and rights relating to meetings);
- IV.2.1 to IV.2.8 (issuance of depositary receipts for shares);
- IV.3.11 (summary of anti-takeover measures in annual report);
- IV.4.1 to IV.4.3 (institutional investors).

Departures from the code

Below we have set out why and to what extent Alliander has departed from the principles and best practice provisions contained in the Code (the 'apply or explain' principle).

Recent changes in legislation and regulations Management and Supervision Act

The Management and Supervision Act (Wet bestuur en toezicht) came into force on 1 January 2013. Among other things, the Act introduces a new conflict-of-interest scheme, a restriction on the number of supervisory and management board positions, and targets for women on management and supervisory boards. Alliander has adjusted the Articles of Association, the by-laws of the Management Board and the by-laws and profile of the Supervisory Board on the basis of these legal amendments. Further information is provided in the Report of the Supervisory Board.

Public and Semi-Public Sector Executives' Pay (Standards) Act

On 1 January 2013, the Public and Semi-Public Sector Executives' Pay (Standards) Act (Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector / WNT) also entered into force. The WNT puts a cap on the remuneration of management board members, senior executives and supervisory board members active in these sectors. The WNT also restricts severance payments to management board members,

contains a ban on bonuses and imposes a number of disclosure requirements. More information about the WNT is included in the remuneration report in this annual report.

Value Added Tax (VAT)

From 1 January 2013, the Tax Department treats supervisory board members as entrepreneurs for VAT purposes. Effective from that date supervisory board members are required to charge VAT (21%) on their remuneration. All Supervisory Board members of Alliander adhere to the new VAT rules.

Audit Profession Act

On 1 January 2013, the Audit Profession Act (Wet op het accountantsberoep / Wab) entered into force. Alongside mandatory audit firm rotation, the Act also imposes a strict separation between the provision of audit and advisory services by auditors to public interest entities (Organisaties van Openbaar Belang / OOB). The reappointment of PricewaterhouseCoopers Accountants N.V. as external auditor of Alliander took place with due regard to the new statutory requirements.



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.	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, which include many long-term projects and investments, an appointment for a maximum period of four years is not considered to be in the interests of the company.
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 that the company terminates the employment contract, 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. Examples of such events include a change of control or an irreconcilable difference of opinion on company policy. The Supervisory Board considers it important that in such situations, one year's salary represents the contractually agreed severance arrangement.
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.	Alliander's Management Board members are appointed by the Supervisory Board. The Supervisory Board notifies the General Meeting of Shareholders of the proposed appointment. The salary components of Management Board members' employment contracts are transparently accounted for and published in the remuneration report.



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 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 By-laws of the Management Board and Supervisory Board.

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.	Proxy voting involves significant costs. In view of the high attendance at the General Meeting of Shareholders (on average more than 80% of issued capital), there is no need to apply this principle. Alliander includes proxy forms with the notice convening the meeting. In addition, its shares are registered shares.
Best practice provision IV.3.1: Analysts' meetings and presentations, presentations to institutional and other investors and press conferences will be announced beforehand on the company's website and in press releases. All shareholders can follow these meetings and presentations simultaneously by webcast, telephone or some other means. Presentations are posted on the company's website after meetings.	Although Alliander is not a listed company, it has issued six listed bonds. Alliander organises meetings with bond investors, institutional investors and shareholders after publication of the interim and full-year figures. Investor Relations announces these meetings in advance via email. Alliander also organises a press conference after publication of the full-year and interim figures. These are announced in advance on the website. Furthermore, Alliander 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 considers it too costly to give all shareholders the opportunity – by webcast, 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 section may be regarded as 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, namely the main features of Alliander's management and control system 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



Ir. P.C. (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 held 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 Delft University of Technology and obtained his MBA at Erasmus University's Rotterdam School of Management. Peter Molengraaf is a Dutch national.

Supervisory Board memberships / relevant other positions

- Member of the Supervisory Board of Vopak Nederland B.V.¹
- Member of the Supervisory Board of N.V. DNV KEMA¹
- Member of the Supervisory Board of Energie Data Services Nederland B.V. (EDSN)
- Board member of Netherlands Energy Data Exchange (NEDU)
- Board member of the employer's association for Energy, Cable & Telecom and Waste & Environment Businesses (WENb)
- Member of the Members' Council of the Association of Energy Network Operators in the Netherlands (Netbeheer Nederland)²



Drs. M.R. (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 Tax 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 completed various Business Programmes at the International Institute for Management Development (IMD) in Lausanne, Switzerland, and the International Directors Programme (IDP) of INSEAD in Fontainebleau, France. Mark van Lieshout is a Dutch national.

Supervisory Board memberships / relevant other positions

Member of the Supervisory Board of the Canisius-Wilhelmina Hospital

¹ Positions in a large legal entity within the meaning of the Management and Supervision Act.

² Chairman of Netbeheer Nederland with effect from 1 January 2014.



Remuneration report

The aim of this report is provide a transparent and structured explanation of the remuneration policies for Alliander's Management Board and Supervisory Board, as well as their implementation in 2013. The remuneration report has been prepared by the Selection, Appointment and Remuneration Committee, under the responsibility of the full Supervisory Board.

Remuneration policy for the Management Board

In conformity with the Dutch Corporate Governance Code, the Supervisory Board, acting on the advice of the Selection, Appointment and Remuneration Committee, draws up the remuneration policy for the members of the Management Board of Alliander. The General Meeting of Shareholders of Alliander is tasked with adopting the policy. The remuneration policy was adopted by the General Meeting of Shareholders in May 2004 and was last amended in April 2006.

Within the set remuneration policy, the Supervisory Board, again acting on the advice of the Selection, Appointment and Remuneration Committee, determines the remuneration of the individual members of the Management Board.

The 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. The policy's most important objective for the Management Board is to recruit and retain qualified and expert board members. In addition, the remuneration policy must support both the short- and long-term objectives of the company. Until recently, the remuneration package of the members of the Management Board was determined according to a market comparison based on relevant labour market reference groups.

Procedure

At the beginning of each year, the Supervisory Board sets the objectives and the accompanying weightings for the variable remuneration. 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 included in the corporate dashboard. The long-term objectives are related to those defined 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 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 capped 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, including holiday allowance.



The entire variable remuneration is subject to a 'claw-back clause'. This means that variable remuneration awarded on the basis of incorrect financial or other information may be clawed back. The Supervisory Board also has the discretionary power to adjust a variable remuneration component awarded in any prior reporting year if, in its opinion, this component would produce unfair or unintended results due to exceptional circumstances during the period under review.

Internal Audit verifies the extent to which the objectives on the scorecard have been achieved before the level of the variable remuneration is adopted. The variable remuneration is paid after the formal adoption of the financial statements by the General Meeting of Shareholders.

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. The annual gross base salary is adjusted each year in line with the periodic salary increases for employees, as laid down in the collective labour agreement for network companies.

B. Short-term variable remuneration

The short-term variable remuneration (one year) is aimed at achieving objectives within the current year. The short-term variable remuneration is capped at 30% of the annual gross base salary. Of the short-term variable remuneration, 60% relates to social aspects.

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 long-term variable remuneration is capped at 30% of the annual gross base salary. Of the long-term variable remuneration, 75% relates to social aspects.

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 retirement age of between 60 and 70. 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 and contributions that are normally paid by the company, Management Board members are entitled to an employer's contribution to the premium for the group health insurance plan, contributions to the personal employee benefits budget, an expense allowance and the use of a company car. In addition, the company has arranged accident and liability insurance for the benefit of the Management Board members. The company does not provide loans, advances or guarantees to members of the Management Board.

A restrictive policy is in place for positions outside the company. The Supervisory Board chairman must approve any supervisory board memberships at listed or other companies, while other significant positions outside the company must be reported in writing to the chairman of the Supervisory Board. Any remuneration received for other positions held pursuant to membership of Alliander's Management Board accrues wholly to the company. Any remuneration for other positions that are not held pursuant to membership of Alliander's Management Board accrues to the Management Board member concerned, 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 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 maximum 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 the company's 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 equal to at least one year's salary, based on the relevant provisions in the individual employment contracts. Under certain conditions, this one-off payment is also made if a member of the Management Board resigns and cannot be reasonably required to continue the employment contract. Relevant examples include a change of 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 considers it important that in such situations, one annual salary represents the contractually agreed severance arrangement.

Implementation of remuneration policy for the Management Board in 2013

A. Annual gross base salary

The Alliander employees covered by the collective labour agreement for network companies received a general salary increase of 1.2% with effect from 1 September 2013, while the base salary of members of the Management Board also rose by 1.2% on the same date. In 2013, Mr Molengraaf's base salary amounted to € 228,685 (including an 8% holiday allowance), and Mr Van Lieshout's base salary amounted to € 215,474 (including an 8% holiday allowance).

B. Short-term variable remuneration

The objectives for 2013 were a combination of financial objectives, customer-related objectives and objectives relating to corporate social responsibility, and were unchanged from 2012.

Objectives for short-term variable remuneration in 2013

Financial (40% weighting)

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

Customers (30% weighting)

- customer satisfaction level in consumer market (10%)
- customer satisfaction level in business market (10%)
- customers with 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 leadership positions (10%)

The customer-related objectives, the 'Corporate Social Responsibility' objectives and the financial objective 'Progress on the 25 most important Asset Management Plan projects' were all achieved and are listed in the summary of objectives and results in this annual report. The financial objectives in relation to NIAT and OPEX were also achieved and are specified in the financial statements. Based on the extent to which the objectives were achieved, the short-term variable remuneration for Messrs Molengraaf and Van Lieshout for 2013 came out at 100% of the maximum of 30% of their annual gross base salary.



C. Long-term variable remuneration

The objectives for 2011 - 2013 are based on financial and non-financial performance objectives. The objectives for the long-term variable remuneration for the 2011 - 2013 period remained unchanged compared to the 2010 - 2012 period, but with the addition of 'socially responsible procurement (SRP)'.

Objectives for long-term variable remuneration for 2011 - 2013

- return on invested capital (ROIC) (25% weighting)
- frequency of accidents (LTIF) (25% weighting)
- electricity outage duration compared to national average (25% weighting)
- socially responsible procurement (SRP) (25% weighting)

Based on the extent to which these objectives were achieved, the long-term variable remuneration for Messrs Molengraaf and Van Lieshout for 2011 - 2013 came out at 75% of the annual gross base salary¹.

The Supervisory Board made no use of its discretionary power to adjust the variable remuneration, and also saw no reason in 2013 to consider exercising its right to claw back variable remuneration paid in respect of earlier years.

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, € 43,050 and € 40,438.

E. Social security charges and other benefits

In 2013, the total amount of social security charges and contributions, the employer's contribution towards the premium for the health insurance plan, contributions to the personal benefits budget, and the expense allowance amounted to € 58,067 for Mr Molengraaf and € 56,086 for Mr Van Lieshout. The crisis levy is included in both amounts².

An overview of the remuneration awarded to the members of the Management Board for 2013 can be found in the notes to the consolidated financial statements.

¹ In the total score of 75%, the score of the actual achievement of the objective 'Electricity outage duration compared to 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 networks in the Netherlands in 2013' to be published in March 2014 by the Association of Energy Network Operators in the Netherlands (Netbeheer Nederland). The score for 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 In 2013 the 'crisis levy' (also referred to as the pseudo final levy for high incomes) was introduced for the duration of one year. This entailed that in 2013, every employer was required to pay an extra levy of 16% in so far as an employee's salary from current employment in 2012 exceeded the amount of € 150,000. This measure has been extended with one year, which means that employers must also pay this extra levy of 16% in 2014 in so far as the set conditions have been met.



Remuneration policy for the Supervisory Board

The remuneration package for the Supervisory Board comprises a base annual remuneration and a fixed annual remuneration for committee memberships.

The remunerations are adjusted annually in line with the wage developments under the collective labour agreement for network companies. As a result, the gross remunerations were raised by 1.2% on 1 September 2013. 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. Liability insurance has been taken out for the members of the Supervisory Board.

An overview of the total remuneration awarded to the members of the Supervisory Board for 2013 can be found in the notes to the consolidated financial statements.

WNT

On 1 January 2013, the Public and Semi-Public Sector Executives' Pay (Standards) Act (Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector / WNT) entered into force. This new Act contains rules for the maximum remuneration for board members and senior executives in the public and semi-public sectors. The WNT limit is set annually by ministerial order.

WNT reporting

The WNT is applicable to the network operators Liander N.V. and Endinet B.V., which are required to report on the remuneration of Management Board members and senior executives. In addition, transparency is requested on the remuneration of other employees, including temporary hires, and severance payments that exceeded a set limit in the reporting year. The separate annual reports of both network operators, which are to be published in the second quarter of 2014, will contain disclosures on the WNT requirements applicable to the network operators.

Transition period

The Act entered into force on 1 January 2013, but will only gradually take universal effect. A transitional arrangement is in place for incumbent board members and senior executives. Under this arrangement, all remuneration commitments (including contractual severance payments) agreed before 6 December 2011 (the day on which the Dutch House of Representatives passed the bill) will be honoured for a four-year period (until 1 January 2017). After this period, the agreed remuneration will be reduced over a three-year period to the applicable WNT limit.

Supervisory board members also fall within the transitional arrangement, but only for their terms of office remaining after 1 January 2013 under appointments made before that date.



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Consolidated balance sheet

Consolidated balance sheet

€ million

Assets

Non-current assets

	Note	2013	2012
Property, plant and equipment	3	6,012	5,821
Intangible assets	4	323	320
Investments in associates and joint ventures	5	32	28
Available-for-sale financial assets	6	297	314
Derivatives	8	-	11
Other financial assets	7	25	46
Deferred tax assets	17	244	335
		6,933	6,875

Current assets

Inventories	9	37	36
Trade and other receivables	10	282	316
Derivatives	8	19	5
Tax assets		-	7
Other financial assets	7	100	75
Cash and cash equivalents	11	155	100
		593	539
Non-current assets held for sale	33	22	-

Total assets

		7,548	7,414
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Equity & liabilities

Equity

	12		
Share capital		684	684
Share premium		671	671
Subordinated perpetual bond		496	494
Hedge reserve		-	-2
Revaluation reserve		24	28
Other reserves		1,212	1,104
Profit after tax		288	224
		3,375	3,203

Liabilities

Non-current liabilities

Interest-bearing debt	13	1,611	1,891
Derivatives	8	6	73
Finance lease liabilities	19	127	131
Deferred income	14	1,555	1,530
Provisions for employee benefits	15	53	59
Other provisions	16	124	74
		3,476	3,758

Short-term liabilities

Trade and other payables	18	76	88
Tax liabilities		85	78
Interest-bearing debt	13	284	5
Provisions for employee benefits	15	65	63
Accruals		187	219
		697	453

Total liabilities

		4,173	4,211
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Total equity and liabilities

		7,548	7,414
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Consolidated income statement

€ million

	Note	2013	2012
Revenue	21	1,744	1,674
Other Income	22	102	98
Total income		1,846	1,772
Operating expenses			
Purchase costs and costs of subcontracted work	23	-416	-449
Employee benefit expenses	24	-453	-433
External personnel expenses	24	-107	-121
Other operating expenses	25	-247	-219
Total purchase costs, costs of subcontracted work and operating expenses		-1,223	-1,222
Depreciation and impairment of property, plant and equipment	26	-357	-337
Less: Own work capitalised		191	181
Total operating expenses		-1,389	-1,378
Operating profit (EBIT)		457	394
Finance income	27	43	64
Finance expense	28	-112	-209
Result from associates and joint ventures after tax	5	2	-15
Profit before tax		390	234
Tax	29	-102	-10
Profit after tax		288	224

The profit after tax for 2013 is entirely attributable to the shareholders of Alliander N.V..

The comprehensive income was as follows:

Consolidated statement of comprehensive income

€ million

	2013	2012
Profit after tax	288	224
Other elements of comprehensive income		
<i>Items that will be reclassified subsequently to profit or loss</i>		
Revaluation of available-for-sale assets	-4	28
Movement in fair value cash flow hedges	2	3
Comprehensive income	286	255



Consolidated cash flow statement

€ million

	Note	2013	2012
Cash flow from operating activities	30		
Profit after tax		288	224
Adjustments for:			
- Finance income and expense	27, 28	69	145
- Tax	29	102	10
- Profit after tax from associates and joint ventures	5	-2	15
- Depreciation and impairment less amortisation	26	296	278
Changes in working capital:			
- Inventories		-1	-8
- Trade and other receivables		40	-46
- Trade and other payables and accruals		-35	31
Total changes in working capital		4	-23
Changes in deferred tax, provisions, derivatives and other		-10	-14
Cash flow from operations		747	635
Net interest paid		-77	-100
Net interest received		5	2
Dividends received from associates and joint ventures		-	15
Corporate income tax paid (received)		8	-7
Total		-64	-90
Cash flow from operating activities		683	545
Cash flow from investing activities	30		
Investments in intangible assets	4	-5	-
Investments in property, plant and equipment	3	-570	-578
Construction contributions received	14	82	85
Investments in financial assets (associates and joint ventures)		-	-5
Cash flow from investing activities		-493	-498
Cash flow from financing activities	30		
Redemption current interest-bearing liabilities and current part of long-term debt		-6	-504
Long-term debt issued		-	798
Early redemption long-term debt		-	-329
Redemption loans granted		21	-
Premium paid in connection with the early redemption of bonds		-	-44
Settlement interest rate swaps		-	-57
Change in current deposits		-25	220
Redemption subordinated perpetual bond	12	-494	-
Subordinated perpetual bond issued	12	496	-
Reimbursement subordinated perpetual bond		-53	-24
Dividend paid		-74	-113
Cash flow from financing activities		-135	-53
Net cash flow		55	-6
Cash and cash equivalents as at 1 January		100	106
Net cash flow		55	-6
Cash and cash equivalents as at 31 December		155	100



Consolidated statement of changes in equity

Equity attributable to shareholders and other providers of equity

€ million	Share capital	Share premium	Subordinated perpetual bond	Hedge reserve	Revaluation reserve	Other reserves	Profit for the year	Total
As at 1 January 2012	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 bonds after tax	-	-	-	-	-	-18	-	-18
Dividend for 2011	-	-	-	-	-	-	-113	-113
Profit appropriation for 2011	-	-	-	-	-	138	-138	-
As at 31 December 2012	684	671	494	-2	28	1,104	224	3,203
Movement in fair value cash flow hedges	-	-	-	2	-	-	-	2
Revaluation of available-for-sale financial assets	-	-	-	-	-4	-	-	-4
Profit after tax for 2013	-	-	-	-	-	-	288	288
Comprehensive income for 2013	-	-	-	2	-4	-	288	286
Reimbursement subordinated perpetual bonds after tax	-	-	-	-	-	-42	-	-42
Redemption subordinated perpetual bonds	-	-	-494	-	-	-	-	-494
Issued subordinated perpetual bonds	-	-	496	-	-	-	-	496
Dividend for 2012	-	-	-	-	-	-	-74	-74
Profit appropriation for 2012	-	-	-	-	-	150	-150	-
As at 31 December 2013	684	671	496	-	24	1,212	288	3,375



Notes to the consolidated financial statements

Accounting policies

Alliander N.V. is a public limited liability company, registered in Arnhem, the Netherlands.

The 2013 financial statements were signed by the members of the Management Board and the members of the Supervisory Board on 17 February 2014. The Supervisory Board will submit the financial statements for adoption by the General Meeting of Shareholders on 2 April 2014.

The Alliander group

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 subsidiaries Liander and Endinet own and manage the regional gas and electricity networks in the provinces of Gelderland, Friesland, Noord-Holland and parts of Zuid-Holland, Flevoland and Noord-Brabant. Under the Electricity Act 1998 and the Gas Act the management of the networks and regional distribution of energy are the exclusive responsibility of the network operator. Liandon provides services relating to the construction and maintenance of complex energy infrastructures. Alliander AG carries on network operation and public lighting activities in Germany. The subsidiary Stam is a medium-sized firm of contractors based in Noord-Holland, engaging in network construction and maintenance work. The activities of CDMA Utilities BV. and Alliander Telecom N.V. concern the group's data communications. Through the subsidiaries Alliander Mobility Services, Alliander Duurzame Gebiedsontwikkeling and Duurzaam Wonen set up in 2013, Alliander is initiating and facilitating developments and activities concerned with creating a sustainable energy supply system for the Netherlands. The increase in sustainable forms of electricity generation on a more decentralised level places demands on the power distribution infrastructure and represents a challenge for network companies. Alliander sees it as its responsibility, together with other market participants, to facilitate this greater sustainability at an acceptable cost to society.

Non-controlling interests

There is a third-party non-controlling interest in one of Alliander's activities. This concerns a 5% interest on the part of the Municipality of Nijmegen in Indigo B.V., a subsidiary of Alliander Duurzame Gebiedsontwikkeling. See note [12].

IFRS

Alliander's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as at 31 December 2013, 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 2013

The IASB and the IFRIC have issued new and/or amended standards and interpretations which are applicable to Alliander with effect from the 2013 financial year. The standards and interpretations below have been endorsed by the European Union.

IAS 19 (revised) 'Employee Benefits'. The amended IAS 19 dispenses with the corridor approach and certain remeasurements on defined-benefit plans are now recognised as unrealised results. Alliander has several pension schemes which are accounted for as defined-benefit plans. The effect of the change on these schemes of minor significance is practically nil.

IFRS 7 'Financial Instruments: Disclosures - Offsetting Financial Assets and Liabilities - Amendments to IFRS 7'. This amendment requires the disclosure of additional quantitative information where financial assets and financial liabilities are offset. Alliander does not apply offsetting to financial instruments, in accordance with IAS 32, and the change does not affect this report.

IFRS 10 'Consolidated Financial Statements', IAS 27 'Separate Financial Statements'. IAS 27 originally covered both consolidated financial statements and separate financial statements. IFRS 10 replaces that part of IAS 27 which was concerned with the consolidated financial statements, and also interpretation SIC 12. IFRS 10 uses a single control model that applies to all entities, including special-purpose entities. IAS 27 defined control as the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. Under IFRS 10, an investor controls an investee when and only when it: a. has power over the investee; b. is exposed, or has rights, to variable returns from its involvement with the investee; and c. has the ability to affect those returns through its power over the investee. The application of IFRS 10 has not led to any changes in the Alliander consolidation.

IFRS 11 'Joint Arrangements', IAS 28 'Investments in Associates and Joint Ventures'. IFRS 11 replaces IAS 31 'Interests in Joint Ventures' and SIC 13 'Jointly Controlled Entities - Non-Monetary Contributions by Venturers'. The transition from IAS 31 to IFRS 11 brings together the separate forms of joint venture, i.e. jointly controlled assets and jointly controlled operations, under the common heading of joint operations, with specific definitions of joint arrangements and joint control. Under IFRS 11, a joint arrangement is classified as either a joint operation or a joint venture, depending on the contractual rights and obligations of each party.

Proportionate consolidation of joint ventures is discontinued. Alliander already uses the equity method for joint ventures instead of proportionate consolidation. The application of IFRS 11 and the amended IAS 28 has no impact on the existing treatment of joint operations and joint ventures.

IFRS 12 'Disclosures of Interests in Other Entities'. IFRS 12 contains the disclosure requirements for all form of interests in other entities. IFRS 12 extends the disclosure requirements to include disclosure of risks.

IFRS 13 'Fair value Measurement'. IFRS 13 is a new standard combining all fair value measurement requirements from other IFRSs. IFRS 13 contains new and supplementary disclosure requirements and, under IFRS 13, credit risks are taken into account in measuring the fair value of financial instruments. IFRS 13 is applied prospectively. The fair values of financial instruments for this report have been measured in accordance with IFRS 13.

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 reclassified to profit or loss. This change has been taken into account in the statement of comprehensive income.

IAS 36 'Impairment of Assets' has been amended to clarify the scope of the disclosures relating to the recoverable amounts of assets that have been subject to impairment.

IAS 39 'Financial Instruments: Recognition and Measurement' has been amended to include a new section on 'Novation of Derivatives and Continuation of Hedge Accounting'. The amendment provides for continuation of hedge accounting in situations where a central counterparty, as a consequence of primary and/or secondary legislation, in connection with novation assumes the position of a counterparty to a derivative that has been designated a hedging instrument.

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.



Expected changes in accounting policies

In addition to the above-mentioned new and amended standards, the IASB and the IFRIC have issued new and/or amended standards and/or interpretations in the period up to the end of 2013 which will be applicable to Alliander with effect from the 2014 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 2013, in the context of further amendments to IFRS 9, the IASB decided no longer to adhere to 1 January 2015 as the date of first application but to leave this open for the time being. In 2010, new requirements were added to IFRS 9 concerning 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.

IFRS 10, 12 and IAS 27 are being amended with regard to the recognition, treatment and disclosure of investment entities in order to reflect the business model of these entities more closely. The amendments, which are effective from 1 January 2014, do not have any impact on Alliander.

IAS 19 'Defined Benefit Plans, Employee Contributions' concerns a simplification of the treatment of employee contributions and contributions from third parties relating to defined benefit plan pension contributions. The amendment, which is effective from 1 July 2014, does not have any impact on Alliander.

IFRIC Interpretation 21 'Levies' provides guidance on the recognition and treatment of government levies. IFRIC 21 is applicable with effect from 1 January 2014, is not expected to have any impact on Alliander.

The IASB 'Annual Improvements Process 2010 - 2012' has resulted in corrections and minor amendments to a number of IFRS standards, which are effective as from 1 July 2014 and the IASB 'Annual Improvements Process 2011 - 2013' has resulted in corrections and minor amendments to a number of IFRS standards, which are effective as from 1 January 2014. 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 their 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 joint arrangements where the parties having joint control over the arrangement have rights to the net assets of the arrangement. These parties are referred to as investors in joint ventures.

A joint operation is a joint arrangement where the parties having joint control over the arrangement (including Alliander) have rights to the assets and obligations for the liabilities relating to the arrangement. These parties are referred to as participants in joint operations.

In a joint operation, Alliander recognises its assets and liabilities and its revenue and expenses arising from the joint operation.

Page 174 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 2013, 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 contrast to 2012, there were no changes in Alliander's cash-generating units in 2013. The important change in 2012 has to do with the fact that the small-scale users electricity metering

service and the small-scale users 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 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 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 case.



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

With effect from 1 January 2013, as a consequence of a change in replacement policy and in view of technological developments, the depreciation periods for large-capacity meters have been reduced. The effect has been an increase in depreciation charges in 2013 of € 2 million.

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 other 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 – mostly investments in loans and shares – are classified into the categories described under the two headings below. 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. 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 recognised 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 – at tax group level – 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 face 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, these 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. The contributions paid during the year are recognised in the income statement. The same applies in the case of the pension plans administered by BPF Bouw and the Pensioenfond voor Metaal en Techniek.

In addition to the above multi-employer pension plans in the Netherlands, Alliander has two defined benefit plans relating to subsidiaries in Germany, although these are not of material importance. These plans are accounted for in accordance with the amended IAS 19. This means that, with effect from 2013, actuarial gains and losses and revaluations are recognised directly.



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.

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 a reliable estimate of the obligation can be made.

Provisions are measured at the face 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 and from connecting customers, including fixed components, referred to as the capacity tariff. Also included in this figure is the revenue from providing electricity and gas metering services for small-scale users. For the provision of these various 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, transformer rental charges and charges for the construction and maintenance of complex energy infrastructures.

Other income

Other operating income consists of the following and items, among others:

- 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 2013 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 almost 80% of the revenue, forms the largest company within the Alliander group and is responsible for providing gas and electricity connections and for transporting gas and electricity in Gelderland and parts of Noord-Holland, Flevoland, Friesland and Zuid-Holland.

Network company Endinet Groep B.V., including network operator Endinet B.V., has largely similar activities to those of Liander, but serving the Eindhoven and Oost-Brabant distribution area. 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 Authority for Consumers & Markets (ACM);
- 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, connection and metering 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	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
<i>Income statement</i>														
Operating income														
External revenue	1,642	1,558	117	109	87	105	-	-	1,846	1,772	-	-	1,846	1,772
Internal revenue	3	12	-	-	315	313	-318	-325	-	-	-	-	-	-
Total revenue	1,645	1,570	117	109	402	418	-318	-325	1,846	1,772	-	-	1,846	1,772
Operating expenses														
Purchase costs and costs of subcontracted work	661	666	11	12	133	129	-77	-70	728	737	-312	-288	416	449
Operating expenses	577	580	47	44	353	346	-241	-255	736	715	71	58	807	773
Depreciation and impairments	262	244	39	36	56	57	-	-	357	337	-	-	357	337
Own work capitalised	-315	-312	-7	-5	-121	-109	-	-	-443	-426	252	245	-191	-181
Total operating expenses	1,185	1,178	90	87	421	423	-318	-325	1,378	1,363	11	15	1,389	1,378
Operating profit	460	392	27	22	-19	-5	-	-	468	409	-11	-15	457	394
Net finance income/expenses	-110	-74	-11	-10	39	-11	-	-	-82	-95	13	-50	-69	-145
Share in results of associates and joint ventures after tax	1	1	-	-	1	-4	-	-	2	-3	-	-12	2	-15
Tax	-88	-80	-4	-3	-9	-	-	-	-101	-83	-1	73	-102	-10
Profit after tax	263	239	12	9	12	-20	-	-	287	228	1	-4	288	224
Segment assets and liabilities														
Total assets	6,260	6,148	518	528	2,645	2,617	-1,876	-1,879	7,548	7,414	-	-	7,548	7,414
Non-consolidated investments in associates	-	-	-	-	31	27	-	-	31	27	-	-	31	27
Non-consolidated investments in joint ventures	1	1	-	-	-	-	-	-	1	1	-	-	1	1
Liabilities (non-current and current)	4,386	4,232	245	258	2,202	2,179	-2,660	-2,458	4,173	4,211	-	-	4,173	4,211
Other segment items														
Investments in property, plant and equipment	449	496	28	28	79	54	-	-	556	578	-	-	556	578
Number of permanent staff at end of year	3,360	3,415	286	268	2,302	2,124	-	-	5,948	5,807	-	-	5,948	5,807

The profit after tax for 2013, like that for 2012, 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 € 312 million (2012:€ 288 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 49 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

€ million	External revenue		Property, plant and equipment		Intangible assets		Non-consolidated associates and joint ventures	
	2013	2012	2013	2012	2013	2012	2013	2012
The Netherlands	1,813	1,743	5,985	5,794	323	320	32	28
Rest of the world	33	29	27	27	-	-	-	-
Total	1,846	1,772	6,012	5,821	323	320	32	28

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 2012					
Historical cost	244	8,408	1,160	204	10,016
Accumulated depreciation and impairments	-111	-3,609	-721	-	-4,441
Carrying amount as at 1 January 2012	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
Movements 2013					
Investments	1	23	104	442	570
Divestments	-	-17	-8	-1	-26
Depreciation	-6	-227	-89	-	-322
Impairments	-6	-	-1	-	-7
Reclassification to assets held for sale	-13	-9	-	-	-22
Transfers and other movements	-1	388	32	-421	-2
Total	-25	158	38	20	191
As at 31 December 2013					
Historical cost	207	8,776	1,364	226	10,573
Accumulated depreciation and impairments	-101	-3,632	-828	-	-4,561
Carrying amount as at 31 December 2013	106	5,144	536	226	6,012

Investment

Capital expenditure on property, plant and equipment totalled € 556 million with additional investments of € 14 million in existing assets, making a combined total of € 570 million (2012: € 578 million). On 31 January 2013, Alliander took over the assets and liabilities of Utility Connect B.V., followed by the acquisition, on 1 February 2013, of the assets and liabilities of Entropia Assets B.V., for a total amount of € 18 million, made up of intangible assets of € 5 million, property, plant and equipment on € 14 million and debts of € 1 million. These transactions gave Alliander a licence to use the 450 MHz frequency band, a PoC (Proof of Concept) network and a network of masts and the associated transmission network covering the entire country. These assets will be used to create a network which will facilitate future data communications. The assets were acquired by Alliander in pursuit of its ambition to build

more smart networks in the coming years, incorporating sensors to permit enhanced monitoring and remote control of energy flows. In these systems, data communications will be more intensive and more crucial to operations. Wireless telecommunications will play a major role.

New consolidations

There were no acquisitions in 2013.

Divestments

Divestment in 2013 related to decommissioning of network assets and other plant and equipment and sales of buildings and land.

Reclassification to assets held for sale

For details of this item, reference is made to note [33].



Impairment

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 2013, Alliander applied a discount rate before tax of 5.6% for 2013 (2012: 7.9%) and 6.6% for later years, reflecting the regulated discount rate, and 8.1% (2012: 8.1%) for free-domain activities. For more information, see note [4].

The impairment losses incurred in 2013 on property, plant and equipment relate to a part of the buildings and land on Spaklerweg, Amsterdam (€ 6 million) and to a heat transport pipeline under construction in the Nijmegen region (€ 1 million). For more information regarding Spaklerweg, see note [33]. There were no impairment losses in 2012.

Cross-border lease transactions

In the period 1998 to 2000, subsidiaries of Alliander N.V. (since 1 July 2010 also including Endinet) entered into US cross-border leases for networks, in the form of LILO (lease-in lease-out) and SILO (sale-in lease-out) structures.

In 2013 three of the cross-border leases were terminated early in consultation with the US investor involved. These were the leases on the gas networks of the former NRE, GGR and VNB in the provinces of Noord-Brabant and Gelderland. The ending of these leases has had the effect of reducing the total net carrying amount of the assets covered by cross-border leases by € 0.3 billion, the related investments by \$ 0.8 billion, the strip risk by \$ 70 million and the security provided in the form of letters of credit by \$ 62 million. The figures quoted are relative to the reported amounts as at year-end 2012.

The four transactions currently remaining relate to gas networks in Friesland, Gelderland, Flevoland, Noord-Holland 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 have in turn 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. In the case of one transaction, security has been provided in the form of mortgages and pledges in connection with the liabilities entered into on parts of the networks.

The total net carrying amount of the networks covered by cross-border leases at year-end 2013 was approximately € 1.1 billion (2012: € 1.4 billion). At the end of 2013, a total of \$ 3.1 billion (2012: \$ 4.1 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 June 2013, the maximum 'strip risk' (the portion of the 'termination value' - the possible compensation payable to the American counterparty in the event of early termination of the transaction - which cannot be settled from the deposits and investments held for this purpose) for all transactions together was \$ 278 million (2012: \$ 326 million). Security in the form of letters of credit is now provided by Alliander to the investor concerned in the case of just one transaction, the amount concerned being \$ 6 million (2012: \$ 74 million). The number and size of the letters of credit to be issued depends partly on Alliander's credit rating.

The equity strip risk of \$ 278 million relates entirely to the off-balance-sheet commitments under the cross-border lease contracts. As a consequence of the increased carrying amounts of the underlying assets, the liabilities on the face of the balance sheet relating to two cross-border lease contracts as at year-end 2013 did not have any effect on this (2012: \$ 58 million).

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 2013 was € 105 million (2012: € 109 million).



Note 4 Intangible assets

Intangible assets

€ million	Goodwill	Other intangible assets	Total
As at 1 January 2012			
Historical cost	500	7	507
Accumulated amortisation and impairments	-187	-	-187
Carrying amount as at 1 January 2012	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
Movements 2013			
Investments	-	5	5
Depreciation	-	-2	-2
Total	-	3	3
As at 31 December 2013			
Historical cost	500	12	512
Accumulated amortisation and impairments	-187	-2	-189
Carrying amount as at 31 December 2013	313	10	323

The investment in 2013 relates to the purchase of a licence connected with the establishment of a dedicated mobile telecommunications network for energy networks. The cost

of the licence will be amortised over the years up to the end of 2020. The other intangible assets are amortised over a period of 20 years. The amounts of investments and amortisation in 2012 were small.

Goodwill allocation by segment

€ million	2013	2012
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 2013, 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 5.6% (2012: 7.9% for 2013 and 6.6% for later years). The discount

rate is arrived at using the ACM 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 Liander networks that the sensitivity to changes in the estimates and assumptions used is limited. In the case of Endinet on the other hand, there is not such

a difference but, if the activities of Endinet are integrated into Liander with effect from 1 July 2015, the ability to take advantage of synergistic effects will create a considerable margin. There were no impairment losses in 2013.

Note 5 Investments in associates and interests in joint ventures

Investments in associates and joint ventures

€ million	Associates		Joint ventures		Total	
	2013	2012	2013	2012	2013	2012
Carrying amount as at 1 January	28	42	-	12	28	54
Movements						
Investments	1	5	-	-	1	5
Share in results	1	-2	1	-1	2	-3
Dividends received	-	-15	-	-	-	-15
Impairment	-	-1	-	-11	-	-12
Currency translation differences and other movements	1	-1	-	-	1	-1
Total	3	-14	1	-12	4	-26
Carrying amount as at 31 December	31	28	1	-	32	28

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 174. 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.

Share in results of associates and joint ventures

€ million	Associates Carrying amount as at 31 December		Joint ventures Carrying amount as at 31 December		Total comprehensive income Carrying amount as at 31 December	
	2013	2012	2013	2012	2013	2012
Share in						
Profit or loss from continued activities	1	-3	1	-12	2	-15
Profit or loss from discontinued activities	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	1	-3	1	-12	2	-15

Alliander has concluded arrangements with associates and joint ventures for granting finance and credit facilities totalling € 23 million as at year-end 2013. Under these facilities, an amount of € 18 million was drawn down as at 31 December 2013.

The arrangements include a convertible loan of € 2 million. In this context also a liability of € 8 million exists on current account at year-end 2013.



Note 6 Available-for-sale financial assets

Available-for-sale financial assets

€ million

Carrying amount as at 1 January 2012	279
Movements 2012	
Currency translation differences and other movements	35
Total	35
Carrying amount as at 31 December 2012	314
Movements 2013	
Currency translation differences and other movements	-17
Total	-17
Carrying amount as at 31 December 2013	297

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]. The part of the available-for-sale financial assets related to the cross-border lease

contracts had a carrying amount as at year-end 2013 of € 161 million (2012: € 177 million) and serves both to cover related lease obligations as well as the aforementioned CDS. The carrying amount of the related lease obligations was € 126 million at year-end 2013 (2012: € 131 million). The carrying amount of the investments not related to cross-border lease contracts as at year-end 2013 was € 136 million (2012: € 137 million).



Note 7 Other financial assets (including current portion)

Other financial assets

€ million	Loans, receivables and other
Carrying amount as at 1 January 2012	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
Effective interest rate 2013	1%
Movements 2013	
New receivable	1
Loans granted	203
Loans and interest repaid	-200
Total	4
Carrying amount as at 31 December 2013	125
Non-current portion of other financial assets	25
Current portion of other financial assets	100

At the end of 2013, the carrying amount of the other financial assets comprised receivables, loans and capitalised costs denominated in euros (2012: ditto). The loans granted and repaid in 2012 and 2013 were in the form of short-term

deposits. In 2013, this item includes an amount of € 33 million received in respect of an interest-bearing receivable from the former shareholders of Endinet N.V..

Note 8 Derivatives

Derivatives

€ million	Current assets		Non-current assets		Current liabilities		Non-current liabilities	
	2013	2012	2013	2012	2013	2012	2013	2012
Trading derivatives								
Other derivatives	17	-	-	11	-	-	6	73
Total	17	-	-	11	-	-	6	73
Cash flow hedges								
Foreign exchange contracts	2	5	-	-	-	-	-	-
Total	2	5	-	-	-	-	-	-
Carrying amount as at 31 December	19	5	-	11	-	-	6	73

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 2013 amounted to € 6 million negative (2012: € 66 million

negative). Also accounted for in the derivatives held for trading purposes included in the assets and liabilities are the put and call options relating to KEMA, totalling € 17 million (2012: € 11 million) and € 0.2 million (2012: € 7 million), respectively. For further details of these options, reference is made to note [27].



Note 9 Inventories

Inventories

€ million

	2013	2012
Raw materials and consumables	30	29
Finished goods	7	7
Carrying amount as at 31 December	37	36

In 2013 impairments of inventories occurred totalling an amount of € 2 million (2012: € 1 million).

Note 10 Trade and other receivables

Trade and other receivables

€ million

	2013	2012
Trade receivables	86	199
Impairments of trade receivables	-13	-20
Trade receivables net	73	179
Other receivables	25	31
Accrued income and prepayments	184	106
Carrying amount as at 31 December	282	316

At the end of 2013, impairments of trade receivables totalled € 13 million (2012: € 20 million). The impairment loss on trade receivables recognised in the income statement in 2013 amounted to € 7 million (2012: € 3 million). For further information, see the credit risk section of note [34].

The lower figure for trade receivables is connected with the introduction of the new market model on 1 August 2013. Apart from the reduced amount, the mix of accounts was also different (suppliers instead of customers). The amount of the impairments also reflects the lower receivables figure.

Note 11 Cash and cash equivalents

Cash and cash equivalents

€ million

	2013	2012
Cash held at banks	8	-3
Deposits	147	103
Carrying amount as at 31 December	155	100

The effective interest rate on cash and cash equivalents ranged from 0.05% to 0.66% (2012: 0.01% to 1.44%). Cash and cash equivalents are held almost entirely in euros. In 2013, there were no amounts of cash and deposits which were not at the unrestricted disposal of Alliander (2012: 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 2013, 136,794,964 shares were in issue (2012: 136,794,964).

Subordinated perpetual bond loan

On 27 November 2013, Alliander issued a subordinated perpetual bond loan with a nominal amount of € 500 million and a coupon of 3.25% at an issue price of 99.434%, raising an amount of € 497 million. The directly attributable costs of € 1 million were deducted from this amount, so that € 496 million was added to equity. This subordinated perpetual bond loan 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. As and when resolutions are passed making distributions to shareholders, the Management Board will also pay any arrears of the contractual coupon interest to the holders of the subordinated perpetual bond loan out of other reserves. The annual amount of the interest payable is € 16 million.

Coinciding with this issue, the subordinated perpetual bond loan issued by Alliander on 4 November 2010, with a carrying amount of € 494 million and a coupon of 4.875%, was redeemed in two tranches (27 November 2013 and 23 December 2013). The cost of the discount on the issue plus issuing costs, totalling € 18 million, and the payment of € 35 million made to the bondholders in 2013 has been charged to other reserves (a total of € 42 million after tax).

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.

The negative amount of the hedge reserve as at year-end 2013, less deferred tax, was € 0.4 million and relates to an interest rate hedge on the 2004 EMTN programme. As at year-end 2012, the carrying amount was € 2 million. This cash flow hedge terminates in 2014 on maturity of the Euro Medium Term Notes concerned.

Revaluation reserve

The revaluation reserve is connected with the available-for-sale financial assets and to a small extent with a defined-benefit pension plan for employees of our German operations (€ 0.4 million after tax). Movements in the fair value (2013: € 4 million negative) of the available-for-sale financial assets and in the remeasurement of this defined-benefit pension plan 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 € 5 million. 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 € 0.2 million, means that it is not visibly accounted for on the face of the balance sheet as at year-end 2013.

Note 13 Interest-bearing debt

Interest-bearing debt

€ million

	2013	2012
Carrying amount as at 1 January	1,896	1,931
Movements		
New loans	177	1,339
Loans repaid	-181	-1,386
Currency translation differences and other movements	3	12
Total	-1	-35
Carrying amount as at 31 December	1,895	1,896



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

Short- and long-term interest-bearing debt

€ million	Effective interest rate		Current portion		Non-current portion	
	2013	2012	2013	2012	2013	2012
Subordinated loans	8.8%	8.8%	4	4	92	94
Private and green loans	3.0%	3.1%	1	1	20	23
Euro Medium Term Notes	3.9%	4.1%	277	-	1,492	1,766
Banks	8.2%	8.2%	2	-	-	2
Other	0.0%	0.0%	-	-	7	6
Carrying amount as at 31 December			284	5	1,611	1,891

The short-term interest-bearing debt as at year-end 2013, amounting to € 284 million (2012: € 5 million), is made up of the current portion of the non-current liabilities.

As at year-end 2013, a carrying amount of € 1,769 million (face value € 1,776 million) had been issued under the EMTN programme. 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 2013 (2012: 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	2013	2012
Less than 1 year	284	5
Between 1 and 2 years	6	282
Between 2 and 3 years	424	6
Between 3 and 4 years	5	422
Between 4 and 5 years	6	5
Over 5 years	1,170	1,176
Carrying amount as at 31 December	1,895	1,896

Note 14 Deferred income

Deferred income

€ million	2013	2012
Carrying amount as at 1 January	1,530	1,505
Contributions received	82	85
Amortisation recognised as income	-61	-60
Reclassification and other movements	4	-
Carrying amount as at 31 December	1,555	1,530

Deferred income relates to construction contributions, investment grants and subsidies received. The amortisation periods of the construction contributions, investment grants

and subsidies are equal to the depreciation periods of the underlying assets (ranging from 10 to 50 years).



Note 15 Provisions for employee benefits

Provisions for employee benefits

€ million	Current portion		Non-current portion		Total	
	2013	2012	2013	2012	2013	2012
Long-term employee benefits						
Post-employment benefits	2	2	2	3	4	5
Other long-term employee benefits	12	12	39	43	51	55
Termination/reorganisation benefits	10	8	12	13	22	21
	24	22	53	59	77	81
Short-term employee benefits						
Short-term employee benefits	41	41	-	-	41	41
Carrying amount as at 31 December	65	63	53	59	118	122

Post-employment benefits

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. The same applies to the pensions administered by BPF Bouw and Pensioenfondsvoor Metaal en Techniek.

Prompted by the deterioration of the funding ratio in 2008, ABP introduced a recovery plan in 2009. At the start of each year ABP evaluates the progress of the recovery on the basis of the actual funding ratio at the end of the preceding year. The funding ratio as at year-end 2013 was 105.9%. The pension contribution rate in 2013 was 25.4% of pensionable salaries. The pension contribution rate for 2014 is 21.6%. The main factor behind the lower contribution rate is the reduction in the pension accretion percentage from 2.05% to 1.95%.

Additionally, with effect from 1 January 2014, the extra contribution levy in connection with the recovery plan has been reduced to 3%. Alliander's relative share in the ABP pension plan, based on number of members, is approximately 0.5%. The total amount of the pension contributions payable in 2014 for the multi-employer plans is expected to be € 66 million.

In addition to the above multi-employer pension plans in the Netherlands, Alliander has two defined benefit plans relating to subsidiaries in Germany, although these are not of material importance. These plans are accounted for in accordance with the amended IAS 19. This means that, with effect from 2013, actuarial gains and losses and remeasurements are recognised directly. Because of the small amounts involved, however, this is not visible in the consolidated financial statements.



Post-employment benefits essentially 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 € 4 million at the end of 2013 (2012: € 5 million). The provision for post-employment benefits was made up as follows:

Post-employment benefits

€ million	Current portion		Non-current portion		Total	
	2013	2012	2013	2012	2013	2012
Liability for pensions and post-employment healthcare insurance	2	2	2	3	4	5
Actuarial value of obligations as at 31 December	2	2	2	3	4	5

Other long-term employee benefits

Alliander offers a number of other long-term employee benefits. The provision covers the following types of benefit:

- jubilee 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 three 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

€ million	Current Portion		Non-current portion		Total	
	2013	2012	2013	2012	2013	2012
Long-service benefits	2	2	27	29	29	31
Long-term sickness leave and disability benefits	5	4	6	7	11	11
Unemployment benefits	2	1	2	1	4	2
Reduction of older employees' working hours	2	4	2	5	4	9
Other	1	1	2	1	3	2
Carrying amount as at 31 December	12	12	39	43	51	55

Termination / reorganisation benefits

This provision covers payments and/or supplements to benefits paid to employees whose employment contract has been or probably 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 2013, an amount of € 16 million was added to the reorganisation provision (2012: € 18 million). The provision for termination payments/reorganisations totalled € 22 million at the end of 2013 (2012: € 21 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 2012	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
Movements 2013				
Released	-	-4	-6	-10
Added	-	6	16	22
Interest expenses	-	1	-	1
Benefits paid	-2	-7	-9	-18
Remeasurement	1	-	-	1
Total	-1	-4	1	-4
Carrying amount as at 31 December 2013	4	51	22	77

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

Assumptions

	2013	2012
Mortality tables	generation table 2010 - 2060 layer 2013	generation table 2010 - 2060 layer 2012
Discount rates	0.63% - 3.49%	0.40% - 2.89%
Expected future salary increases	2.5%	2.5%
Expected increase in incapacity benefits	2.0%	2.5%

Short-term employee benefits

Short-term employee benefits were € 41 million at the end of 2013 (2012: € 41 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 2012	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
Movements 2013			
Added	-	56	56
Utilised	-	-1	-1
Reclassified to current liabilities	-5	-	-5
Released	-	-	-
Total	-5	55	50
Carrying amount as at 31 December 2013	2	122	124

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 credit default swaps (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 from 2008 onwards 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 2013, there was a reduction of € 60 million in the negative fair value of the CDS and a € 5 million loss on exchange, which were taken to income, as a result of which the amount added to the provision for the CDS and charged to income was increased by € 55 million. The net effect on the profit for 2013 was therefore in nil. There was no change in the overall risk in 2013.

Note 17 Deferred tax

Deferred tax assets were as follows:

Deferred tax assets

€ million	2013	2012
Differences in valuation of property, plant and equipment	245	280
Tax losses carried forward	4	55
Other differences	-5	-
Carrying amount as at 31 December	244	335

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



Gross movement in deferred tax assets

€ million

	Property, plant and equipment	Tax losses carried forward	Hedges	Other	Total
Carrying amount as at 1 January 2012	277	54	1	14	346
Movements 2012					
Added directly via equity	-	-	-	-11	-11
Realised temporary differences	-55	-	-1	-3	-59
Effect adjustment in forecast results	58	-	-	-	58
Tax losses carried forward	-	1	-	-	1
Total	3	1	-1	-14	-11
Carrying amount as at 31 December 2012	280	55	-	-	335
Movements 2013					
Added directly via equity	-	-	-	8	8
Realised temporary differences	-35	-	-	-13	-48
Realised tax loss carryforwards	-	-51	-	-	-51
Total	-35	-51	-	-5	-91
Carrying amount as at 31 December 2013	245	4	-	-5	244

The deferred tax assets of € 245 million in respect of property, plant and equipment (2012: € 280 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 2013 compared with 2012 in relation to the property, plant and equipment is mainly the effect of the temporary reinstatement in 2013 of the accelerated depreciation tax break permitting 50% first-year writedown of investments in the period 1 July 2013 to the end of 2013, as opposed to a whole year in 2012.

The taxable profit of the Alliander N.V. tax group (all the Dutch entities) for 2013 gives rise to a corporate income tax payment liability of € 48 million. The taxable profit in 2013 was reduced by utilising tax-loss carryforwards. There were also minor adjustments in respect of prior years, leaving recognised deferred tax assets of € 4 million. There were no changes in the rates of corporate income tax in 2013.

As at year-end 2013, there was an unrecognised deferred tax asset of € 6 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

	2013	2012
Trade payables	21	34
Amounts due to construction contract customers	5	7
Other payables	50	47
Carrying amount as at 31 December	76	88



Note 19 Leases

Finance lease receivables

At year-end 2013 and 2012, 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

	2013	2012
Less than 1 year	26	24
Between 1 and 5 years	101	98
Over 5 years	68	81
Total	195	203

At 31 December 2013, the operating leases related mainly to rental of transformers, electric vehicle charge points and

the subleasing of two district heating networks to N.V. Nuon Warmte, part of N.V. Nuon Energy.

Leaseverplichtingen

Finance lease payables

€ million

As at 31 December 2013

	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Future minimum lease obligations	9	34	204	247
Future finance expense on finance leases	-9	-37	-74	-120
Present value of finance lease obligations	-	-3	130	127

As at 31 December 2012

	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
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

Finance lease payables at year-end 2013 and year-end 2012 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

	2013	2012
Less than 1 year	20	19
Between 1 and 5 years	39	44
Over 5 years	-	1
Total	59	64

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

	2013	2012
Capital expenditure commitments regarding property, plant and equipment	119	94
Other purchasing commitments	234	229
Total	353	323

In December 2013, Alliander AG reached agreement with EWV Energie- und Wasserversorgung GmbH on the purchase of the gas distribution network in the municipality of Heinsberg with effect from 1 January 2014. The relevant concession was acquired in 2011. The purchase price for the network, which was paid at the beginning of January 2014, was € 10 million. The agreement has a duration of 20 years.

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 € 0.1 million had been issued on Alliander's behalf as at year-end 2013 (2012: € 1 million). As at year-end 2013, Alliander had also given guarantees totalling € 7 million relating to employees' mortgages (2012: € 8 million).

With respect to the planned Spaklerweg disposal, it has been agreed that the city authorities will have an option expiring on 30 June 2020 to acquire part of the site and the buildings for the sum of € 13 million (to be paid in instalments of € 6 million in 2025 and € 7 million in 2028). If the option is exercised, the premises will be handed over in 2025 and Alliander will continue to have use of them up to that date. The exercise of the option by the City of Amsterdam at some future date is not expected to affect profit or loss.

With respect to the cross-border lease commitments, securities in the form of letters of credit amounting to \$6 million (2012: \$74 million) had been issued as at year-end to cover the contingent liabilities. For further information on cross-border leases, see note [3].

In November 2010, Alliander issued a subordinated perpetual bond loan with a nominal value of € 500 million. In the closing two months of 2013, this subordinated perpetual bond loan was redeemed. Under IFRS, an instrument of this kind qualifies as equity. It was assumed that the periodical payments made to the holders of the bonds would count as deductible expenses for

the purposes of corporate income tax. However, no agreement has yet been reached with the Dutch Tax Administration concerning the tax treatment of this loan. The maximum exposure for Alliander is between € 20 million and € 30 million. Having consulted external experts, the Management Board decided not to recognise a provision in this respect.

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 € 75.7 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.

Prior to 1 July 2013, it was not permissible for 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 to be passed on in the tariffs which are subject to official regulation.

Note 21 Revenue

Revenue

€ million

	2013	2012
Electricity transport and connection services	1,057	996
Gas transport and connection services	393	383
Metering services	166	162
Operating contributions and proceeds from transformer rental	128	133
Total	1,744	1,674

Revenue for 2013 was up by € 70 million (4%) compared with 2012, at € 1,744 million. This increase is largely accounted for by higher energy transport and connection service tariffs for

both electricity and gas (€ 71 million) and higher metering service tariffs (€ 4 million), partially offset by lower revenue from deregulated activities (€ 5 million).

Note 22 Other income

Other income

€ million

	2013	2012
Amortisation of construction contributions	61	59
Other income	41	39
Total	102	98

Other income was € 4 million higher at € 102 million.



Note 23 Purchase costs and costs of subcontracted work

Purchase costs and costs of subcontracted work was down by € 33 million compared with 2012, at € 416 million. This drop is mainly due to a decline of € 42 million in the costs of network losses and a decline of € 9 million in billing and payment collection costs. Partially cancelling out these savings were

increases of € 11 million in costs of contractors, materials and other items and € 6 million in respect of transport capacity and restrictions. The reduction in the costs of network losses is partly attributable to the expiry of positions and adjustments relating to prior years.

Purchase costs and costs of subcontracted work

€ million	2013	2012
Grid losses	72	114
Transport capacity and restrictions	140	134
Billing and payment collection	26	35
Contractors, materials and other	178	166
Total	416	449

Note 24 Employee benefits

Employee benefits

€ million	2013	2012
Salaries	340	318
Social security premiums	36	35
<i>Pension costs:</i>		
contributions paid to multi-employer plans that are accounted for as defined-contribution plans	47	41
Termination benefit expenses	-10	16
Other long-term employee benefit expenses	-3	9
	-13	25
Other staff costs	17	14
Total	427	433



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
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
2013				
Contributions paid to multi-employer plans	47	-	-	47
Added to provision	-	16	6	22
Released from provision	-	-6	-4	-10
Interest expense	-	-	1	1
Total 2013	47	10	3	60

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 € 107 million (2012: € 121 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)

	2013	2012
Employed in continuing operations		
-Average during the year	5,878	5,675
-As at 31 December	5,948	5,807
-Number of permanent staff outside the Netherlands	151	126

WNT

On 1 January 2013, the Public and Semi-Public Sector Executives' Pay (Standards) Act (Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector / WNT) entered into force. This new act contains rules for the maximum remuneration for board members and senior executives in the public and semi-public sectors. The WNT limit is set annually by ministerial order.

WNT reporting

The WNT is applicable to the network operators Liander N.V. and Endinet B.V., which are required to report on the remuneration of Management Board members and senior executives. In addition, transparency is requested on the remuneration of other employees, including temporary hires, and severance payments that exceeded a set limit in the reporting year. The separate annual reports of both network operators, which are to be published in the second quarter of

2014, will contain disclosures on the WNT requirements applicable to the network operators.

Transition period

The Act entered into force on 1 January 2013, but will only gradually take universal effect. A transitional arrangement is in place for incumbent board members and senior executives. Under this arrangement, all remuneration commitments (including contractual severance payments) agreed before 6 December 2011 (the day on which the Dutch House of Representatives passed the bill) will be honoured for a four-year period (until 1 January 2017). After this period, the agreed remuneration will be reduced over a three-year period to the applicable WNT limit. Supervisory board members also fall within the transitional arrangement, but only for their terms of office remaining after 1 January 2013 under appointments made before that date.



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 104 to 108 of the 2013 Annual Report.

The remuneration of the members of the Management Board is disclosed in the following table.

Total gross annual remuneration chargeable to the financial year

€ thousand	Fixed salary		Short-term variable remuneration		Long-term variable remuneration		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
P.C. Molengraaf	229	226	69	55	51	77	349	358
M.R. van Lieshout	215	213	65	52	48	73	328	338
Total	444	439	134	107	99	150	677	696

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. In 2013, the long-term variable remuneration for the period 2011 - 2013 was finalised. The figure presented for 2012 relates to the period 2010 - 2012.

Pension contributions

€ thousand	2013	2012
P.C. Molengraaf	43	39
M.R. van Lieshout	40	37
Total	83	76

Social security charges and remuneration elements

€ thousand	2013 ¹	2012 ¹
P.C. Molengraaf	58	50
M.R. van Lieshout	56	57
Total	114	107

¹ The figures include the crisis levy, totalling € 63,000 for 2013 and € 54,000 for 2012, 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

connected with personalised budgeting of conditions of employment, an representation allowance, the use of a company car and the crisis levy.



Remuneration of the Supervisory Board

€ thousand

	2013 ¹	2012
Mr E.M. d'Hondt, Chairman ²	21.1	32.7
Mr F.C.W. Briët	30.6	30.2
Ms J.B. Irik ³	7.0	27.6
Ms J.G. van der Linde ⁴	15.5	27.6
Ms J.W.E. Spies ⁵	8.7	-
Ms A.P.M. van der Veer-Vergeer, Deputy	28.0	27.6
Mr J.C. van Winkelen, Chairman	30.6	30.2
Mr G. Ybema († 15 februari 2012)	-	4.6
Total	141.5	180.5

¹ Under the change in the VAT rules applicable to supervisory directors, VAT has been payable on these directors' fees with effect from 1-1-2013, at a rate of 21%.

² Reappointed as from 27 March 2013.

³ Retired on 27 March 2013.

⁴ Reappointed as from 27 March 2013.

⁵ Appointed as from 27 March 2013.

The lower remuneration figure in 2013 compared with 2012 for the reappointed Supervisory Board members is the effect of the Act on the Standardisation of Remuneration of Senior Executives in the Public and Semi-Public Sector (WNT), which

came into operation on 1 January 2013. The same applies to the remuneration of the Supervisory Board member appointed in 2013. Transitional arrangements apply to the remaining members of the Supervisory Board.

Note 25 Other operating expenses

Other operating expenses

€ million

	2013	2012
Additions to provisions	9	5
Premises and transport	18	16
Rent and leases	51	46
Corporate staff and ICT	46	49
Sufferance tax and other taxes	60	46
Other	63	57
Total	247	219

Sufferance tax payments in 2013 amounted to € 59 million, compared with € 43 million in 2012.

The auditors' fees were as follows:

Auditor's fees

€ million

	2013	2012
Description of services:		
Audit of the financial statements:	0.7	1.0
Other assurance services	0.7	0.9
Other non-audit services	-	0.4
Total	1.4	2.3

The work carried out on other audit engagements, in particular the control of the regulated statutory reports, are in line with the Act on the accounting profession.



Note 26 Depreciation and impairment of non-current assets

Depreciation and impairment of property, plant and equipment

€ million	Land and buildings	Networks	Other	Total
2013				
Depreciation	6	227	91	324
Divestments	-	17	9	26
Impairments	6	1	-	7
Total 2013	12	245	100	357
2012				
Depreciation	6	221	83	310
Divestments	-	14	13	27
Total 2012	6	235	96	337

In 2013, impairment losses of € 7 million were recognised (2012: nil). Note [3] gives details of these impairments. The divestments include the accelerated depreciation of

decommissioned assets. The figures under the heading 'other' in 2013 include the scheduled depreciation of property, plant and equipment.

Note 27 Finance income

Finance income

€ million	2013	2012
Interest income on loans and deposits	1	3
Fair value movement of KEMA put option	6	11
Fair value movement of KEMA call option	7	-
Other finance income	9	16
Currency translation differences	20	34
Total	43	64

There were no assets qualifying for capitalisation of interest during the construction period in either 2013 or 2012.

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 2013, the put option had a fair value of € 17 million (2012: € 11 million) and was recognised in current assets and the call option, the fair value of which was almost nil in 2013 (2012: € 7 million) was recognised in 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	2013	2012
Loans from third parties	-79	-139
Fair value movements interest rate derivatives	-	-20
Fair value movement of KEMA call option	-	-7
Fair value movements swaps	-5	-
Currency translation differences	-15	-30
Other finance expense	-13	-13
Total	-112	-209

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

Noot 29 Belastingen

Tax

€ million	2013	2012
Current tax income/expense	-54	1
Movement in deferred taxes	-48	-11
Total	-102	-10

The recognised tax expense of € 54 million is made up of tax charges of € 55 million for 2013 and a tax recovery of € 1 million resulting from minor adjustments relating to prior years.

The corporate income tax payable on the 2013 taxable profits of the Alliander N.V. tax group was € 48 million. This is the balance of the calculated corporate income tax on the profit for 2013 (€ 55 million) and the calculated corporate income tax on movements in balance sheet items recognised directly in equity (€ 7 million tax credit).

The drop of € 91 million in the deferred tax asset is the combined effect of the movement in deferred taxes recognised in the income statement (€ 48 million) plus utilisation of tax loss carryforwards (€ 51 million) and an increase in the deferred tax asset (€ 8 million) recognised directly in equity.

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

%	2013	2012
Enacted corporate income tax rate in the Netherlands	25.0	25.0
<i>Impact of:</i>		
- adjustment in carrying amount of deferred tax assets	-	-23.4
- permanent differences	1.3	2.4
Effective corporate income tax rate	26.3	4.0

The higher effective tax rate in 2013 is mainly due to unrecognised losses at Alliander AG, an adjustment based on the 2012 corporate income tax return and expenses that are not allowable for tax purposes.



Note 30 Notes to the consolidated cash flow statement

Cash flow from operating activities

The cash flow from operating activities in 2013 amounted to € 683 million (2012: € 545 million). The increase of € 138 million compared with 2012 is essentially accounted for by the higher operating profit, the changes in working capital and the reduced interest charges on our debt in 2013, largely as a consequence of the refinancing of part of the EMTN portfolio in the autumn of 2012

Cash flow from investing activities

The cash outflow from investing activities in 2013 was more or less unchanged compared with the preceding year (€ 493 million compared with € 498 million in 2012). The cash flow from investing activities in 2013 includes the investment in data communication masts and operating licence totalling € 19 million in connection with the establishment of a dedicated mobile telecommunication network for energy networks.

Cash flow from financing activities

The cash flow from financing activities in 2013 amounted to € 135 million negative (2012: € 53 million negative). The difference of € 82 million is due in part to the additional payment to holders of the subordinated perpetual bond loan in connection with the buyback and reissue operation. In 2013, apart from the replacement of the subordinated perpetual bond loan, no new long-term loans were drawn down or repaid.

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 appointed Liander as network operator for their gas and electricity networks for a 10-year period (expiry date: 9 June 2014); preparations are in hand for the renewal of Alliander's network operator mandate for another 10-year period. 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 2013, 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 over which it has significant influence but not control or has joint control of operations and financial policy. Transactions with these parties, some of which are significant, are executed on market terms and at market prices which are not more favourable than those which would be negotiated with independent third parties. These associates and joint ventures are consequently designated as related parties.

The following transactions were entered into with related parties for the purchase and sale of goods and services:

Related party transactions

€ million

Sales of goods and services

- associates

- joint ventures

Total

Purchase of goods and services

- associates

- joint ventures

Total

2013

2012

3

2

67

43

70

45

11

7

89

94

100

101

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 2013, Alliander had assets of € 18 million (2012: € 6 million) in respect of loans granted to related parties and liabilities of € 8 million in respect of agreed borrowings on current accounts with related parties (2012: nil).



Note 33 Assets and liabilities held for sale and discontinued operations

Assets held for sale as at year-end 2013 related to part of the buildings and land on Spaklerweg, Amsterdam, (€ 13 million) and a high voltage network in the Centre of the Netherlands (€ 9 million). These assets form part of the Network Operator Liander segment.

With regard to the Spaklerweg asset, heads of agreement were reached with the City of Amsterdam in 2013 concerning the sale of some of the buildings and land in 2014. The carrying amount of the assets to be sold is € 19 million. The sale price will only be received in instalments, however, over a number of years commencing in 2020, reducing the carrying amount (net present value, arrived at using a discount rate of 3.75%) of this sale price to € 13 million as at year-end 2013. On this basis, an amount of € 6 million has been recognised as an impairment loss in the income statement.

The expected sale of a 150 kV transmission network is an outstanding transaction resulting from the statutory obligation incumbent on the regional network operators to transfer all high voltage transmission systems operating at 110 kV and above to the national transmission grid operator TenneT. The delay is due to power line realignment work which still has to be completed.

There are no long-term liabilities associated with the assets held for sale in the case of either transaction.

As at year-end 2012, there were no assets and liabilities held for sale. There were also no discontinued operations in either 2012 or 2013.

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 CO₂.

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 2013 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 2013 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

	Position	Income		Equity	
		Decrease by 10% relative to the euro	Increase by 10% relative to the euro	Decrease by 10% relative to the euro	Increase by 10% relative to the euro
€ million					
As at 31 December 2013					
Exposure in USD	139	-15	13	-	-
Hedged position in USD	-139	15	-13	-	-
Sensitivity of cash flow in USD (net)	-	-	-	-	-
Total exposure in foreign currencies	139	-15	13	-	-
Total hedged position in foreign currencies	-139	15	-13	-	-
Sensitivity of cash flow in foreign currencies (net)	-	-	-	-	-
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)	-	-	-	-	-

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

Exchange rates

	2013	2012
EUR		
USD	1.38	1.32



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.

Alliander had no interest rate swaps outstanding as at year-end 2012 or 2013.

Maturity date or earlier contractual interest repricing date

	Effective interest rate	Variable/fixed	Carrying amounts			
€ million			Less than 1 year	Between 1 and 5 years	Over 5 years	Total
As at 31 December 2013						
Assets						
Available-for-sale financial assets and other financial assets	2.84%	Fixed / variable	-	136	161	297
Loans and receivables			102	20	3	125
Cash and cash equivalents		Variable	155	-	-	155
Total assets			257	156	163	577
Loans received						
Subordinated loans	8.8%	Fixed	-4	-26	-66	-96
Private and green loans	3.0%	Fixed	-1	-20	-	-21
Euro Medium Term Notes	3.9%	Fixed	-277	-399	-1,093	-1,769
Banks	8.2%	Fixed	-2	-	-	-2
Other		Variable	-	-	-7	-7
Finance lease obligations	6.6%	Fixed	-	3	-130	-127
Total current and non-current financial liabilities			-284	-442	-1,296	-2,022
Total liabilities			-284	-442	-1,296	-2,022
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

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 variable-rate assets and liabilities:

A change of 100 basis points in interest rates as at 31 December 2013 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 following table.



Interest rate risk sensitivity analysis

	Position	Income		Equity	
		Decrease by 100 basis points	Increase by 100 basis points	Decrease by 100 basis points	Increase by 100 basis points
€ million					
31 December 2013					
Variable-rate instruments	236	-2	2	2	-2
Sensitivity of cash flow (net)	236	-2	2	2	-2
31 December 2012					
Variable-rate instruments	231	-2	2	4	-4
Sensitivity of cash flow (net)	231	-2	2	4	-4

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 (year-end 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 (2014) 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 balance of the loss as at 31 December 2013 was almost nil (2012: € 2 million).

The table below presents the pre-tax movements in the cash flow hedge reserve in the financial year. As at 31 December 2013, the cash flow hedge reserve was € 0.4 million net of deferred tax (2012: € 2 million).

Cash flow hedges

	Hedge ineffectiveness	Hedge reserve as at 1 January	Changes in fair value	Transfer to Income	Hedge reserve as at 31 December
€ million					
2013					
Interest rate risks					
Interest rate swaps	-	-2	-	1	-1
Total 2013	-	-2	-	1	-1
2012					
Interest rate risks					
Interest rate swaps	-	-5	-	3	-2
Total 2012	-	-5	-	3	-2



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 a list of criteria drawn up by the Management Board, making them approved counterparties, 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. 80% of the cash and cash equivalents (2012: 88%) is placed with parties with an AA rating or higher.

Sales

Alliander is exposed to credit risk; this is the risk of non-payment by customers for services provided. The company has procedures to limit credit exposure to counterparties and to ensure that outstanding positions are covered by collateral, for example, in the form of bank guarantees.

Maximum credit risk

The maximum credit risk is the carrying amount of each financial asset, including derivative financial instruments. The maximum credit risk that Alliander is exposed to in respect of the cross-border lease transactions is \$3.1 billion (2012: \$4.1 billion). This includes the risk on an investment in a credit default swap transaction with an underlying reference portfolio of \$12.2 billion (2012: \$12.8 billion), where the credit risk for Alliander has been capped at \$171 million (€ 124 million; 2012: € 130 million). The carrying amount of the associated available-for-sale financial assets included in Alliander's balance sheet amounts to € 161 million (2012: € 177 million). The CDS had a fair value of € 6 million negative as at 31 December 2013 (2012: € 66 million negative) and a term to June 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	2013	2012
Not overdue	32	101
0-30 days	38	63
31-90 days	8	10
91-360 days	1	10
> 360 days	7	15
Carrying amount as at 31 December	86	199



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

Movements in the provision for bad debt

€ million	2013	2012
Carrying amount as at 1 January	20	21
Utilised (trade receivables written off)	-14	-4
Added to allowance account charged to income	7	3
Carrying amount as at 31 December	13	20

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 (2012: 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 2013, Alliander extended the term of

the committed credit facility of € 600 million from 30 June 2017 to 30 June 2018. 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 2013, 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 and commodity contracts intended for own use 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 and CSAs (Credit Support Annexes). In 2013, Alliander did not receive any margin call requests.



Liquidity risk 2013 and 2012

	Carrying amount	Contractual cash flows			
€ million		Less than 1 year	1 - 5 years	Over 5 years	Total
As at 31 December 2013					
Loans received					
Principal amounts	-1,888	-284	-440	-1,171	-1,895
Interest	0	-76	-210	-435	-721
Finance lease obligations	-127	-9	-34	-204	-247
Accounts payable	-88	-88	-	-	-88
Other payables	-359	-359	-	-	-359
Off balance sheet commitments					
Operating lease liabilities	-	-20	-39	-	-59
Currency instruments					
Forward obligations	2				
Buy		143	-	-	143
Sell		-141	-	-	-141
Total		2	-	-	2
Other derivatives	-6	-	-6	-	-6
Total	-2,466	-832	-729	-1,810	-3,371
As at 31 December 2012					
Loans received					
Principal amounts	-1,890	-5	-718	-1,175	-1,898
Interest	0	-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	-529	-1,042	-1,432	-3,003

Measurement of fair value

The following table lists the financial instruments measured at fair value in descending order of the fair value hierarchy, with the levels of the input data used to measure the fair value defined as follows:

- level 1, quoted prices (unadjusted) on active markets for comparable assets or liabilities;
- level 2, inputs other than level 1 quoted prices observable for a particular asset or liability, either directly (i.e. in the form of actual prices) or indirectly (i.e. derived from prices);
- level 3, inputs not based on observable market data.



Fair value hierarchy

€ million	31 December 2013				31 December 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Available-for-sale financial assets	-	297	-	297	-	314	-	314
Non-current derivatives	-	-	-	-	-	-	11	11
Current derivatives	-	2	17	19	-	5	-	5
Total Assets	-	299	17	316	-	319	11	330
Liabilities								
Non-current derivatives	-	6	-	6	-	66	7	73
Current derivatives	-	-	-	-	-	-	-	-
Total Liabilities	-	6	-	6	-	66	7	73

The hierarchical analysis of the instruments is arrived at as far as possible on the basis of the availability of quoted prices on active markets or other observable inputs. Changes in the hierarchy only occur when necessary, owing to changes in the availability of the relevant inputs. This did not apply in the reporting period and there were therefore no transfers between levels in the fair value hierarchy.

Methods used for level 2 fair value measurement

Available-for-sale financial assets consist of investments in securities whose fair value is equal to the carrying amount. Part of these assets relates to cross-border lease contracts. The fair value is arrived at by discounting the future cash flows using the interbank interest rate as at the reporting date plus market credit spreads for these or similar investments. The non-current derivative under liabilities concerns a CDS linked to one of the available-for-sale financial assets. The attributed value has been obtained from a specialist valuation bureau which employs observable market data in its calculations. The measured amount has been internally verified and analysed.

The other level 2 derivatives are currency instruments and are measured at the present value of the future cash flows calculated using the interbank interest rate as at the reporting date and credit spreads of the parties concerned. Present values in foreign currency are translated at the spot rate applicable on the reporting date.

Methods used for level 3 fair value measurement

The level 3 derivatives concern the put option (€ 17 million) and the call option (practically nil value) which are part of the agreement relating to the transfer of the KEMA shares. These options were valued 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). The applied volatility was calculated at 30%. Changes in the interest rate and the volatility affect the amounts of the put and call options individually but have almost zero effect on the result of the two together.

The fair value gains and losses on these options during the reporting period are recognised in the income statement. Included in finance income is a fair value gain of € 6 million on the put option and a fair value gain of € 7 million on the call option. In view of the expected remaining life of these options, they have been included in current assets and liabilities as at year-end 2013.



The movements in these derivatives during the reporting period were as follows:

Reconciliation in level 3 Instruments

€ million

	Assets Put option	Liabilities Call option
Carrying amount as at 1 January 2013	11	-7
Changes recognised in profit and loss	6	7
Carrying amount as at 31 December 2013	17	-

Fair value of other financial instruments

The following table lists the fair values of the financial instruments that are not recognised at fair value but at

amortised cost, including the fair value hierarchy levels of the input data used.

Fair value of financial assets and liabilities measured at amortised costs

€ million

	Note	31 December 2013		31 December 2012	
		Fair value	Level	Fair value	Level
Non-current assets					
Other financial assets	7	25	2	45	2
Liabilities					
Non-current liabilities					
Finance lease liabilities	19	-122	2	-132	2
Interest-bearing debt:	13				
Euro Medium Term Notes		-1,582	1	-1,936	1
Other interest-bearing debt		-163	2	-202	2
Total non-current liabilities		-1,867		-2,270	
Short-term liabilities					
Interest-bearing debt:	13				
Euro Medium Term Notes		-286	1	0	1
Other interest-bearing debt		-4	2	-5	2
Total short-term liabilities		-290		-5	
Total liabilities		-2,157		-2,275	

Measurement of fair value

The fair value of these instruments is measured as follows:

Other financial assets: The fair value of loans granted by Alliander is measured on the basis of the incoming cash flows discounted using risk-free interest rates plus credit spreads for these or similar investments. As regards the current portion of these assets, it is assumed that the fair value is more or less the same as the carrying amount.

Loans received: The fair value of the Euro Medium Term Notes is measured on the basis of market prices quoted by Bloomberg. The fair value of the other loans received is measured on the basis of the outgoing cash flows discounted using risk-free

interest rates plus credit spreads applicable to Alliander.

As regards the current portion of these liabilities, it is assumed that the fair value is more or less the same as the carrying amount.

Finance lease obligations: The fair value of these obligations is measured on the basis of future cash flows discounted using risk-free interest rates plus credit spreads applicable to Alliander.

Because the comparative figures as at 31 December 2012 have been compiled in accordance with IFRS 13, they differ from the fair values given in the notes to the 2012 financial statements.



The fair value of the following financial assets and liabilities is more or less the same as the carrying amount.

- trade and other receivables;
- current tax assets;
- current other financial assets;
- cash and cash equivalents;
- trade and other payables;
- current tax liabilities.

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. As part of Alliander's financial framework, the subordinated perpetual bond loan issued in 2013 is treated as 50% equity and 50% borrowed capital. This is contrary 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 in respect of financial instruments recognised in the income statement:

Effect of financial instruments on income statement

€ million

	2013	2012
Net result on derivatives held for trading:		
Fair value changes in currency instruments	-3	13
Fair value changes interest rate derivatives and options	5	-13
Net result on available-for-sale financial assets	-12	-3
Net result on financial liabilities at amortised cost:		
Interest charges on financial liabilities at amortised cost	-89	-139
Interest gains on cash equivalents, loans granted, trade receivables, other receivables and deposits	10	19
Currency translation differences on restricted cash	17	-6
Fees paid and received other than for the calculation of the effective interest rate	-3	-13
Net changes in fair value of cash flow hedges transferred from equity	-1	-3
Net finance income and expense	-76	-145
Impairment of trade receivables	-7	-3
Other operating expenses	-7	-3

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

Effect of financial instruments on equity

€ million

	2013	2012
Effective part of changes in fair value of cash flow hedges	-	-
Net changes in fair value of cash flow hedges transferred to the income statement	1	3
Total recognised in cash flow hedge reserve	1	3



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. 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 is 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.

These factors may also trigger recognition of impairment. In measuring the extent of the impairment, estimates are made of the fair value less costs to sell and the value in use. The fair value less costs 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 costs to sell and the value in use. The estimate of the fair value less costs 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 suppliers. 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 court rulings, 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.

Network losses; allocation & reconciliation

The allocation process serves to determine estimates of the quantities of electricity and gas supplied and the associated network losses on a daily basis, particularly where standard annual consumption patterns are used for the consumer and SME 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 21 months 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

There are no events after the balance sheet date.



Company financial statements

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

€ million	Note	2013	2012
Non-current assets			
Property, plant and equipment	37	212	214
Intangible assets	38	104	104
Investments in subsidiaries and associates	39	2,154	2,179
Derivatives	8	-	11
Other financial assets	40	23	101
Total non-current assets		2,493	2,609
Current assets			
Other receivables		30	24
Other financial assets		100	75
Receivables from subsidiaries	41	2,772	2,562
Cash and cash equivalents	42	140	80
Total current assets		3,042	2,741
Total assets		5,535	5,350
Equity	43		
Share capital		684	684
Share premium		671	671
Subordinated perpetual bond ¹		496	494
Hedge reserve ¹		-	-2
Revaluation reserve ¹		24	28
Other reserves		1,212	1,104
Profit after tax		288	224
Total equity		3,375	3,203
Provisions	44	53	65
Non-current liabilities			
Interest-bearing debt	45	1,602	1,885
Derivatives	8	-	7
Total non-current liabilities		1,602	1,892
Short-term liabilities			
Current and accrued liabilities		505	190
Total short-term liabilities		505	190
Total equity and liabilities		5,535	5,350

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

Company income statement

€ million	Note	2013	2012
Other income less expenses after tax	47	38	-56
Result of subsidiaries and associates after taxation		250	280
Net profit after tax		288	224



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.



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	208	22	384
Accumulated depreciation and impairment	-73	-123	-	-196
Carrying amount as at 1 January 2012	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
Movements 2013				
Investments	-	5	48	53
Divestments	-	-	-1	-1
Depreciation	-4	-44	-	-48
Transfers and other movements	-	21	-27	-6
Total	-4	-18	20	-2
Carrying amount as at 31 December 2013				
Historical cost	158	294	43	495
Accumulated depreciation and impairment	-81	-202	-	-283
Carrying amount as at 31 December 2013	77	92	43	212

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 2012	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
Movements 2013			
Dividends received	-308	-	-308
Result for the year	249	1	250
Internal transfers	-6	-	-6
Issue of share capital	42	-	42
Movement in revaluation reserve	-4	-	-4
Other movements	1	-	1
Total	-26	1	-25
Carrying amount as at 31 December 2013	2,153	1	2,154

Dividends amounting to € 308 million (2012: € 1,402 million) were received in 2013 from the subsidiaries Liander N.V. and Endinet Groep B.V.. The investment of € 42 million in 2013 is largely made up of payments of capital amounting to € 19 million invested in Alliander Participaties B.V. and € 20 million invested in Alliander AG. The dividends received

from subsidiaries and payments of capital invested in them result from the capital restructuring of these companies in line with Alliander's policy. Internal transfers mainly relates to the transfer of Indigo B.V. from Alliander N.V. to Alliander Duurzame Gebiedsontwikkeling B.V..



Note 40 Other financial assets

Other financial assets

€ million	Deferred tax assets	Other receivables	Total
Carrying amount as at 1 January 2012	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
Movements 2013			
New receivable	-	13	13
Realised temporary differences	-5	-	-5
Tax losses carried forward	-51	-	-51
Loans paid	-	-35	-35
Total	-56	-22	-78
Carrying amount as at 31 December 2013	3	20	23

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 2013, there was a capital restructuring of these companies in line with Alliander's policy, resulting in the payment of dividends to the holding company.

Note 42 Cash and cash equivalents

The cash and cash equivalents balance at the end of 2013 did not include any restricted cash (2012: 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	Environmental restoration provision	Other provisions	Total
Carrying amount as at 1 January 2012	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
Movements 2013						
Released	-	-4	-4	-	-	-8
Added	-	16	5	-	-	21
Utilised	-2	-9	-6	-4	-	-21
Interest	-	-	1	-	-	1
Major curtailments and settlements	-	-3	-1	-1	-	-5
Total	-2	-	-5	-5	-	-12
Carrying amount as at 31 December 2013	1	11	37	2	2	53

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 2013, the reorganisation provision amounted to € 11 million (2012: € 11 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 rates and repayments on long-term liabilities were as follows:

Interest-bearing debt

€ million	2013	2012
Carrying amount as at 1 January	1,891	1,921
Movements		
New loans	176	1,338
Repayments	-181	-1,368
Total	-5	-30
Carrying amount as at 31 December	1,886	1,891



Long-term interest-bearing debt short-term part

€ million	Effective interest rate		Current portion		Non-current portion	
	2013	2012	2013	2012	2013	2012
Subordinated loans	8.8%	8.8%	4	4	90	94
Private and green loans	3.0%	3.1%	1	1	20	23
Medium Term Notes	3.9%	4.1%	277	-	1,492	1,766
Banks	8.2%	8.2%	2	-	-	2
Carrying amount as at 31 December			284	5	1,602	1,885

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 2013, Alliander had issued parent company guarantees amounting to € 38 million (2012: € 37 million). Bank guarantees amounting to € 0.1 million had been issued on Alliander's behalf as at year-end 2013 (2012: € 1 million). As at year-end 2013, Alliander had also given guarantees totalling € 7 million relating to employees' mortgages (2012: € 8 million).

Note 47 Other income less expenses after tax

Net other income and expenses after tax was an income of € 38 million (2012: € 56 million expense), mainly relating to company-wide activities at holding company level. The turnaround compared with 2012 is largely accounted

for by lower external interest charges in 2013 and incidental items in 2012 relating to 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 147 and 148 of the 2013 consolidated financial statements.

Arnhem, 17 February 2014

Management Board

Mr P.C. Molengraaf (chairman)
Mr M.R. van Lieshout

Supervisory Board

Mr E.M. d'Hondt (chairman)
Mr F.C.W. Briët
Ms J.G. van der Linde
Ms J.W.E. Spies
Ms A.P.M. van der Veer-Vergeer
Mr 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 2013 of Alliander N.V., Arnhem as set out on pages 109 to 170. 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 2013, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for 2013 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 2013, 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 2013, 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 2013, 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, 17 February 2014

PricewaterhouseCoopers Accountants N.V.

Original signed by
R. Dekkers 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 2013

The Management Board has determined, with the approval of the Supervisory Board, to add € 162.8 million of the profit to other reserves. The remaining profit of € 125.0 million is at the disposal of the General Meeting of Shareholders. This equates to 45% of profit after taxation, excluding incidental items after tax that did not generate cash flows in the 2013 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

There are no events after balance sheet date.



Significant subsidiaries and associates

As at 31 December 2013

Significant consolidated subsidiaries

	Based in	%
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%
Alliander Telecom N.V. *	Amsterdam	100%
CDMA Utilities B.V. *	Arnhem	100%
Alliander Participaties B.V. *	Arnhem	100%
MPARE B.V. *	Duiven	100%
Alliander AG	Berlin	100%
Alliander Netz Heinsberg AG	Heinsberg	100%
Alliander Stadtlicht GmbH	Berlin	100%
Alliander Netz Osthavelland GmbH	Brieselang	100%
Alliander Netzbetrieb Hennigsdorf GmbH	Hennigsdorf	50%
Alliander Mobility Services B.V. *	Arnhem	100%
Alliander Duurzame gebiedsontwikkeling B.V. *	Arnhem	100%
Indigo B.V.	Nijmegen	95%
Duurzaam Wonen B.V. *	Arnhem	100%

Associates (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.	17%
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 Dutch Civil Code, is filed with the Chamber of Commerce in Arnhem.



Materiality test

Each year, Alliander performs a materiality test to determine the subjects to be covered in the annual report. During the test, stakeholders weigh up internal and external factors for relevance.

Approach

Materiality is assessed at an early stage in the reporting process, using a questionnaire completed by stakeholder representatives. The scope of the selected themes and their impact on Alliander and its stakeholders are examined in a self-assessment. The results are then discussed with the Management Board.

Step 1: identifying 50 themes per stakeholder group

Stakeholders weighed up the relevance of themes in a survey. Scores were awarded during round-table discussions of the annual report 2012 in interaction with stakeholders. Scores for the customer perspective were obtained from a customer survey.

Step 2: establishing the top 15

Each stakeholder's top five themes were identified. The highest priority was awarded 5 points, the lowest 1 point (on a scale of 1 to 5). An average score was calculated for themes given high scores by several stakeholders. This means that the themes assigned the highest scores by each stakeholder group were always given a high ranking. This method properly reflects the different perspectives of stakeholders and their interests. The business impact of themes scored by stakeholders was assessed and an indicative impact score was determined for each theme. The average of all scores per theme formed the result.

Materiality chart

The fifteen themes with the highest stakeholder scores (average score per stakeholder) are included in the materiality chart. The stakeholder score is charted on the Y axis. The impact score is set by the organisation and charted on the X axis. The materiality chart presents the most material subjects for Alliander's annual report. The numbers given to the themes in the materiality chart are references to the notes and do not indicate priority.

Themes that were weighted by relevance but did not end up in the stakeholders' top 15 were business ethics, smart networks, quality of life, risk management, stakeholder dialogue, outlook, biodiversity, energy generation, depletion of natural resources, environmental pollution, climate change, historical pollution, waste and circularity, risk of child labour in the supply chain, discrimination, supply chain liability, gains from feed-in energy, infrastructure security, access to energy, terrorism, smart meters, privacy, supplier model, health and radiation, electro-magnetic fields, energy storage, capacity planning, political instability, violence, the financial crisis, energy fraud, diversity, service area expansion, pay caps/remuneration, work/life balance and compliance with financial policy. These themes are therefore not presented in the chart.



Stakeholder interaction

	Organisation	Type of interaction	Objective	Reference	
Customers	consumer	Web panel Customer survey Customer ombudsman Customer panels Consumer organisations	Digital panel Quantitative survey (4 per year) Complaints and mediation (case by case) Qualitative research (various forms) Dialogue (various forms)	Collaboration, relationship management, dialogue and improved service	Customers
	business	Trade associations	Dialogue / relationship management (various forms)	Collaboration, dialogue / relationship management and improved service	Customers
Employees	Employee survey Employee representation Young employee network – Tension Female employee network – Lianne GBLT network - Pride Staff association	Quantitative research (quarterly) Formal consultations (monthly) Dialogue/workshops/meetings Idem Idem Employee association	Participation, dialogue and employee engagement	Employees	
Public authorities	Provinces and municipalities	Consultation, collaboration and projects (ad hoc projects)	Align climate and environmental plans and projects	Shareholders and investors	
	Central government and European Union	Consultation, discussions and exchange of views (ad hoc projects)	Promote expression of interest and proactive dialogue	Shareholders and investors	
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	
Suppliers	Contractors and industry Suppliers of goods and services	Contractors’ day (once a year) Suppliers’ days Theme-based consultations SRP consultations	Collaboration, relationship management and dialogue	Financial	
Regulators	Netherlands Competition Authority Netherlands Authority for Consumers & Markets	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	
Knowledge institutions	Educational institutions and knowledge organisations	Collaboration with Radboud University, Regional Training Centres (periodic), Universities of Applied Science in Twente, Eindhoven and Delft (periodic)	Knowledge exchange and partnerships	Employees	
Multi-stakeholder and network organisations	Urgenda Groene Zaak Kenniskring Amsterdam NEN Standards Committee MVO Nederland Smart Energy Collective Klimaatverbond Nederland Milieu Centraal FRES Global Intelligent Utility Network Coalition Global Reporting Initiative	Board membership, meetings, sponsorship (periodic)	Collaboration with knowledge institutions, businesses and government organisations, promotion of sustainability	Customers	



Organisation	Type of interaction	Objective	Reference
Energy sector WENb employers' organisation E-decentraal Association of Energy Network Operators in the Netherlands Energy producers / suppliers	Board membership (monthly) Working groups (monthly) Stichting e-laad (continuous)	Knowledge exchange, partnerships, representation of interests, collaboration	Customers
Shareholders and lenders	Provinces and municipalities General meeting of shareholders (at least annually) Major shareholder consultations (at least annually) Internships, management consultations, individual contacts Qualitative survey (every two years)	Formal and informal consultations, knowledge and insight into activities	Shareholders and investors
	Lenders, investors and credit rating agencies Periodic consultations and reports on financial performance	Accountability and commentary	Shareholders and investors
Media	Local and national media General and special interest media Relationship management Proactive information provision Crisis communications Qualitative survey (every two years)	Information, positioning	All stakeholders
National politicians	Both houses of parliament, ministries Relationship management Working visits Proactive and reactive information provision Qualitative survey (every two years)	General information and information on specific topical themes	All stakeholders



Assurance report

To: the Management Board of Alliander N.V.

Report on the Corporate Social Responsibility information

Engagement and responsibilities

We have reviewed, as presented on page 6 to 45 and page 59 as of “Our sustainable performance” to page 77, ‘Corporate Social Responsibility Report 2013’ (hereafter ‘the Report’) of Alliander N.V., Arnhem. In this Report Alliander N.V. accounts for its performance in respect of Corporate Social Responsibility in 2013.

Review: limited assurance

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 an audit.

We do not provide any assurance on the assumptions and feasibility of prospective information, such as targets, expectations and ambitions, included in the Report.

The Management Board of Alliander N.V. is responsible for the preparation of the Report. Our responsibility is to provide an assurance report on the Report.

Reporting criteria

Alliander N.V. developed its reporting criteria on the basis of the G3 Guidelines of the Global Reporting Initiative (GRI) as published in October 2006, as mentioned in ‘About this Report’ in the Report. We consider the reporting criteria to be relevant and sufficient for our examination.

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 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 Report;
- Reviewing internal and external documentation to assess whether the information in the Report is adequately substantiated;
- Assessing the overall presentation of the Report in accordance with the reporting criteria of Alliander N.V.;
- Assessing the consistency of the corporate social responsibility information in the annual report 2013 and the 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 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.

Amsterdam, 17 February 2014
PricewaterhouseCoopers Accountants N.V.

Original signed by:
R. Dekkers 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. This table is posted on the website (jaarverslag.alliander.com/2013).



Statement GRI Application Level Check

GRI hereby states that **Alliander NV** has presented its report "Energy for a sustainable community" (2014) 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. For methodology, see www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 17 February 2014

Nelmara Arbex
Deputy Chief Executive
Global Reporting Initiative



The "+" has been added to this Application Level because Alliander NV has submitted (part of) this report for external assurance. GRI accepts the reporter's own criteria for choosing the relevant assurance

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

Disclaimer: Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 4 February 2014. GRI explicitly excludes the statement being applied to any later changes to such material.



Five-year summary

€ million	2013	2012	2011	2010	2009 ¹
Result					
Revenue	1,744	1,674	1,586	1,432	1,446
Total operating income	1,846	1,772	1,695	1,525	1,750
Total operating expenses	-1,389	-1,378	-1,297	-1,195	-1,259
Operating profit	457	394	398	330	491
Profit before tax from continuing operations	390	234	217	230	383
Profit after tax	288	224	251	222	312
Balance sheet					
Net working capital	-94	-96	-112	-61	-25
Property, plant and equipment	6,012	5,821	5,575	5,402	4,638
Total assets	7,548	7,414	7,318	7,400	6,756
Equity	3,375	3,203	3,079	2,906	2,245
Total interest-bearing debt	1,895	1,896	1,931	2,184	2,225
Total financing	5,270	5,099	5,010	5,090	4,470
Capital expenditure on non-current assets	576	583	479	371	397
Cash flows					
Cash flow from operating activities	683	545	557 ²	508	372
Cash flow from investing activities	-493	-498	-398	-340	-153
Cash flow from financing activities	-135	-53	-554 ²	-118	-763
Free cash flow	190	47	159 ²	168	152
Ratios					
Non-current interest-bearing debt as % of total interest-bearing debt	85%	100%	74%	99%	97%
ROIC	7.6%	6.9%	7.2%	6.9%	7.8%
FFO/Net debt	38.7%	30.9%	34.1%	32.7%	25.4%
Interest cover	8.0	6.0	5.8	5.5	3.7
Solvency	51.1%	49.5%	47.5%	44.3%	41.6%
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)	3,063	3,087	3,057	3,020	2,884
New connections (thousand)	29	31	36	40	41
Cables laid (km)	904	1,160	1,167	883	1,104
Gas					
Active connections as at 31 December (thousand)	2,649	2,644	2,630	2,607	2,137
New connections (thousand)	20	22	23	26	23
Mains laid (km)	160	196	206	205	194
Volumes transported					
Electricity (GWh)	30,314	30,522	30,576	30,940	29,408
Gas (million m ³)	7,000	7,461	7,039	8,746	6,138
Other					
Number of disconnections (consumer and business market)	12,742	12,364	12,134	9,551	8,223
Facilitated supplier switches (thousand)	930	781	744	608	538
Annual electricity outage Liander (minutes)	24.0	24.5	20.0	31.2	27.4
Average number of permanent staff (FTE)	5,878	5,675	5,430	4,975	4,561

¹ The figures have been adjusted for comparison purposes.

² 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

ACM

In April 2013, the Netherlands Consumer Authority (Consumentenautoriteit), the Netherlands Competition Authority (Nederlandse Mededingingsautoriteit / Nma) and the Netherlands Independent Post and Telecommunications Authority (Onafhankelijke Post en Telecommunicatie Autoriteit / OPTA) joined forces to create a new regulator: the Netherlands Authority for Consumers & Markets (Autoriteit Consument & Markt / ACM). The tasks of the ACM include supervision of compliance with the Dutch Electricity Act 1998 (Electriciteitswet 1998) and the Dutch Gas Act (Gaswet).

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.

CO₂

Carbon dioxide. Mainly released during the burning of fossil fuels such as natural gas and coal and contributes to the greenhouse effect.

CO₂ equivalent

The effect of greenhouse gases other than CO₂ converted into CO₂-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.

m³ natural gas

A cubic metre (1,000 litres) of natural gas, the average natural gas consumption per household is about 1,800 m³ 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.

**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.

PCB (polychlorinated biphenyl)

Chemical name for chloride compound with strong heat-resistant properties.

Regulated domain

The activities arising from the tasks that are the exclusive preserve of the network operator and for which maximum tariffs are set by the ACM. 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.

SF₆

Sulphur hexafluoride, an inert gas that is 5.1 times heavier than air and has a CO₂ equivalent of 22,800. SF₆ 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 SF₆ 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 CO₂ 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 CO₂ 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 (Wet Onafhankelijk Netbeheer) 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.



Abbreviations

General abbreviations

ABP	Pension fund for employees in the Dutch government, public and education sectors
ACM	Authority for Consumers & Markets
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 Organization
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
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	Executives' Pay (Standards) Act
WON	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 or 278 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



Have your say on our dilemmas

Alliander actively contributes to energy transition, energy saving and the sustainability of society. We do this in dialogue with our stakeholders. Making choices for tomorrow means facing challenging dilemmas. Fundamental choices must be made, involving diverse interests. We engage in an open dialogue about all these issues. What are our key dilemmas?

- **Customers:** the coming years will see intensive contacts between network operators and customers, for instance when proposing and installing the smart meter. How can we make our services more customer-focused and personal, now that the supplier model has widened the distance between our business and our customers?

- **Employees:** the energy world is developing at a faster pace than our employees' knowledge and expertise. A growing number of employees are therefore turning to our career centre for assistance. How can we ensure their sustainable employability?
- **Shareholders and investors:** the pace and direction of society's progress towards sustainability are uncertain. As a result, network operators are facing the challenge of making future-proof investments. But what investments are needed to pave the way to a sustainable future?

We invite our stakeholders to contribute their thoughts and views on these and other dilemmas. Our roundtable sessions give you an opportunity to have your say. To find out more or contribute to our dialogue, contact us via communicatie@alliander.com.

Disclaimer

This report is a translation of the Dutch annual report 2013 of Alliander N.V.. Although this translation and selection has been prepared with the utmost care, misinterpretations or deviations as a result of the translation process from the Dutch annual report may nevertheless occur, such that the information in this report may be misinterpreted or different conclusions may be drawn. In such cases, the Dutch annual report 2013 will prevail.

'We', 'Alliander', 'the company', 'the Alliander Group' or similar expressions are used in this report as synonyms for Alliander N.V. and its subsidiaries. Liander refers to grid manager Liander N.V. and its subsidiaries. The name Endinet refers to the Endinet group, including grid manager Endinet B.V.. In this report Stam refers to Stam Heerhugowaard Holding B.V. and its subsidiaries and Liandon refers to Liandon B.V.. Alliander N.V. is the sole shareholder of Liander N.V., Endinet Groep B.V., Liandon B.V., Alliander Telecom N.V., Alliander Participaties

B.V., Verlian B.V., Stam Heerhugowaard Holding B.V., Alliander Duurzame Gebiedsontwikkeling B.V., Alliander Mobility Services B.V., Duurzaam Wonen B.V., CDMA Utilities B.V. and Alliander AG. Parts of this report contain forward-looking information. These parts may – without limitation – include statements on government measures, including regulatory measures, on Alliander's share and the share of its subsidiaries and joint ventures in existing and new markets, on industrial and macroeconomic trends and on the impact of these expectations on Alliander's operating results.

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

February 2014

Alliander N.V.

Visiting address:

Utrechtseweg 68, 6812 AH Arnhem

Postal address:

P.O. Box 50, 6920 AB Duiven

info@alliander.com

www.alliander.com

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