Alliander N.V.
Half-Year Report 2012

25 July 2012

alliander

Disclaimer

This report is a translation of the Dutch half-year report 2012 of Alliander N.V. Although this translation has been prepared with the utmost care, deviations from the Dutch half-year 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 half-year report 2012 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 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.

This report has been prepared using the accounting policies applied in the preparation of the 2011 Annual Report of Alliander N.V., which can be found on www.alliander.com.

This report has not been audited.

1 profile

Alliander is an energy network company and responsible for the regional distribution of electricity and gas to customers covering roughly one third of the Netherlands. Every day 3.3 million customers use our services.

Alliander's subsidiaries Liander and Endinet manage the regional gas and electricity networks in the provinces of Gelderland, Friesland, Noord-Holland and parts of Zuid-Holland, Flevoland and Noord-Brabant. Liander and Endinet are responsible for the energy infrastructure connections of 3.3 million customers and for their electricity and gas supply. Alliander's subsidiary Liandon provides services relating to the construction and maintenance of complex energy infrastructures.

Alliander aims to fulfil its public responsibilities in a dedicated and reliable manner and seeks to achieve balanced growth for all its stakeholders: customers, employees, shareholders, the environment and society at large. Alliander is fully aware at all times of the importance of energy to its customers and to society.

Alliander also plays an important role in facilitating moves towards greater sustainability in Dutch energy supplies. The increase in sustainable, more decentralised power generation makes demands on the energy 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.

Alliander's largest shareholders are the provinces of Gelderland, Friesland and Noord-Holland and the city of Amsterdam. The province of Flevoland and various municipalities in the provinces of Flevoland, Gelderland, Noord-Holland and Zuid-Holland are also shareholders.

2 key figures

Financial key figures

€ million, unless otherwise stated	1st half 2012	2011[1]
Revenue	819	763
Other income	49	53
Operating expenses	685	626
Operating profit	183	190
Profit after tax	82	119
Profit after tax excluding incidental items and fair value movements	100	111
Investments in property, plant and equipment	250	201
Cash flow from operating activities	208	242

	30 June 2012	31 December 2011
Total assets	7,657	7,318
Total equity	3,049	3,079
Net debt [2]	1,460	1,346
ROIC [3]	6.9%	7.2%

1 The figures for the first half of 2011 have been restated to reflect a change in presentation whereby all fair value movements on financial instruments are recognised in finance income and expense with effect from 2011.
2 Net debt is defined as interest-bearing debt less cash and cash equivalents and investments that are not restricted.
3 Return on invested capital (ROIC) is defined as the 12-month operating profit adjusted for incidental items and fair value movements, profit after tax from associates and joint ventures and tax, as a percentage of average invested capital (= the sum of the carrying amounts of intangible assets, financial assets, property, plant and equipment and working capital less deferred income).

Other key figures

Ratios in accordance with financial policy [4]	Norm	30 June 2012	31 December 2011
FFO / net debt	> 20%	32.4%	34.1%
Interest cover	> 3.5	6.2	5.8
Net debt / (net debt + equity)	< 60%	38.2%	37.0%
Solvency	> 30%	45.2%	47.5%
Customers			
Customer satisfaction, consumer market [5]		93%	92%
Customer satisfaction, business market [5]		87%	89%
Electricity outage duration (minutes) [6]		20.6	20.0
Society			
Employees at a disadvantage on the labour market [7]		44	74
Socially responsible procurement [8]		30%	30%
Employees			
Total number of permanent and hired staff		6,710	6,647

4 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. These principles differ in one respect from the classification according to IFRS: under IFRS the subordinated perpetual bond loan is recognised as equity whereas, according to the principles of our financial policy, this instrument is treated as 50% borrowed capital and 50% equity. 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 net of accrued income, as a percentage of net debt. The interest cover ratio concerns 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, plus net finance income and expense divided by net finance income and expense adjusted for incidental items and fair value movements. The solvency ratio is obtained by dividing total equity including the profit for the period by total assets less the expected dividend distribution for the current year and deferred income.
5 Customer satisfaction is a measure of the relative satisfaction rating for customers in both the consumer and business markets, calculated by an external agency several times a year using random surveys.
6 The outage duration expresses in minutes the average time for which our customers are without electricity over a 12-month period in the area served by Liander.
7 Alliander supports people whose personal circumstances make it more difficult for them to find work.
8 The SRP (socially responsible procurement) percentage shows the proportion of Liander's expenditure which meets the SRP criteria.

3 report of the Management Board

Summary of significant events

Increased investments in networks, maintenance and innovation

In the first half of 2012 substantially more was invested in replacement of and innovation in the electricity and gas networks than in the corresponding period in 2011. These investments are part of a capital expenditure programme involving the construction of new network sections, strengthening existing network sections and the replacement of entire network sections throughout Alliander's service area. These investments are needed to maintain the quality and safety of energy networks at their current level and to distribute the growing energy flows, both to and from our customers. Alliander is also investing in innovative applications to ensure effective operation and control of the energy networks in the future. In the first half of 2012 in line with our policy bottlenecks in the networks were addressed, the installation of 20 kV cables to meet the growing grid load was accelerated, gas networks were renovated, network data quality was improved and networks were digitised. These activities all form part of Alliander's core task: keeping our electricity and gas networks safe, up-to-date and future-proof.

The small-scale roll-out of the smart meter started in the first half of 2012. Alliander is offering the meter for new build, renovation and alteration projects and on request to individual customers. The large-scale roll-out, offering the smart meter to all customers, will start in 2014. The new meters will be able to give consumers a better picture of their energy consumption.

These activities increased capital expenditure in the first half of the year by € 49 million to € 250 million (first half 2011: € 201 million), of which € 97 million was invested in the replacement of existing networks and € 100 million in network expansion. Maintenance expenditure was € 24 million higher in the first half of the year.

Amsterdam intelligent network on stream

The intelligent network (I-net) in Amsterdam Nieuw-West, which was commissioned in June 2012, enables electricity generated locally, for example by solar panels, to be fed back into the grid. The medium-voltage I-net, operating at 20 kV instead of 10 kV, also provides sufficient capacity to accommodate the projected growth in electricity demand. Demand is expected to rise due to social trends such as the switch to electric cars and the growing use of heat pumps and electrical equipment such as air-conditioning. In the I-net, outages are detected automatically and the power is rerouted, so that supply is restored to all customers in a matter of minutes. This is made possible by the ring structure of the grid, which is under full remote control.

EMTN programme

Alliander repaid a bond loan of € 500 million (4% interest) in April 2012. Bonds with a face value of € 400 million were issued under the EMTN programme in June 2012. The term is 12 years at a fixed interest rate of 2.875%.

Acquisitions

In early 2012 Alliander acquired a 21.25% interest in The New Motion B.V., a company which develops smart charging products for electric cars that can easily be installed anywhere. In May of this year, Alliander acquired a 33% interest in Redstack B.V. This company is developing Blue Energy technology, by which electricity can be generated using the potential difference between salt and fresh water. A total sum of several million euros was invested in these acquisitions. Working with both associates, Alliander will promote the development of technologies that can be deployed to facilitate energy transition.

KEMA

Alliander has a 25.4% stake in KEMA N.V. An agreement was signed on 28 February 2012 under which almost all the other shareholders in KEMA sold their shares to the Norwegian company DNV. On the same date, Alliander and DNV signed an agreement under which Alliander could in future sell its shareholding to DNV. To that end, Alliander was given a put option enabling it to sell the shareholding in KEMA to DNV at an agreed price within a period of several years. DNV, in its turn, was given a call option under which it has the right to buy Alliander's shareholding in KEMA, likewise at an agreed price.

In the context of this transaction, KEMA distributed a dividend of € 60 million, of which Alliander received € 15 million, on 28 February 2012.

Netherlands Competition Authority decision

The Netherlands Competition Authority (NMa) imposed a € 3.3 million fine on Liander for breaching confidentiality of customer data. When the integrated Nuon group was split into a grid manager and an energy supplier, a number of Nuon employees, unknowingly and unintentionally, gained access to Liander's customer data. This information was at individual customer level and the NMa found that it could not be used for commercially attractive search tasks. The (theoretical) access to Liander customer data was blocked immediately when the irregularity was discovered in February 2011 and the NMa's investigation found no evidence of misuse of Liander customer data. Liander is appealing against the NMa's decision.

Customers

Customer satisfaction

Customer satisfaction was maintained at a high level in 2012, with 93% of consumers (2011: 92%) and 87% of business customers (2011: 89%) expressing satisfaction with our services. Customer satisfaction relative to a benchmark for grid managers also improved compared with 2011. Alliander has a better than average position in the benchmark for both the consumer and business markets.

Insight into energy consumption

The 'Arnhem Energy Warriors' project, in which 500 consumers are participating, has been launched in Arnhem. This is a year-long study which aims to find the best way to use smart meters to give consumers better insight into their energy consumption. Liander is conducting this study in conjunction with Climate Alliance Netherlands (Klimaatverbond Nederland), a network of over 150 lower-tier government bodies which is seeking to raise the profile of local climate policy. It is part of a nationwide study of the added value of the smart meter undertaken by NL Agency, part of the Ministry of Economic Affairs, Agriculture and Innovation.

Outage duration

Alliander's task is to provide an uninterrupted electricity supply and our staff work hard every day to make the grid as safe and reliable as possible. The reliability of the electricity supply is reflected in the outage figure. The outage duration expresses in minutes the average time for which our customers are without electricity over a 12-month period in the area served by Liander. At 20.6 minutes, the outage duration in the first half of 2012 stayed at the same low level as in 2011, thanks in part to the improvement programme launched last year.

Society

A socially committed network company

Alliander believes it is important for everyone to have a chance on the labour market, but for individuals in some groups it is difficult to find a place by themselves. Through the Step2Work project, Alliander offers recognised professional training courses and relevant work experience. In the first half of 2012, 44 new entrants (full year 2011: 74) joined the Step2Work project.

Corporate social responsibility

Working with suppliers, Alliander is investigating how to make the energy supply chain more sustainable. To promote sustainable procurement, we sign CSR covenants with our suppliers which define the generic and specific sustainability criteria we aim to meet in our partnership. In the first half of 2012, 30% (2011: 30%) of our purchases fulfilled the CSR criteria.

Employees

Workforce
Compared with the position as at year-end 2011, the total strength of the workforce at the end of June 2012 (both permanent and temporary staff) increased by 63 to 6,710 FTEs. The increase of 154 FTEs in permanent staff was partly offset by a decrease in temporary staff of 91 FTEs.

Sickness absence
The rate of sickness absence in the first half of 2012 showed no change on 2011, remaining at 4.1%.

Women in senior posts
Alliander encourages women to progress to management positions. Women held 20% of management posts as at 30 June 2012

Risks and uncertainties
The Alliander group's risk management framework is based on elements of COSO II and ISO31000, tailored to the Alliander organisation. Further information can be found in the chapter on risk management and risk factors in our 2011 annual report . Risk management within the Alliander group is constantly evolving. It is recognised as an integral part of our management function and key to ensuring our continuity and achieving our objectives.

The main risks that may affect the achievement of our objectives, the pursuit of our corporate values and/or the continuity of our business, which are discussed in Alliander's 2011 annual report, remained relevant in the first half of 2012. One factor that has been reduced as a result of action we have taken is the electricity outage duration.

Effective data management (in terms of quality, integrity and security) is a high priority at Alliander. Accordingly work continued in the first half of 2012 on the improvement projects that were initiated or planned at the end of 2011.

As announced in the 2011 annual report, Alliander will focus in the years ahead on the development and application of intelligent networks. The increasing digitisation of our networks that this entails will require more intensive deployment of IT resources, making it even more important to safeguard the stability of the IT landscape. Various measures are in place to control the risk of a large-scale IT incident or instability of critical IT systems.

The credit crisis and subsequent recession prompted Alliander to continue its measures for controlling credit risks. The credit risk on the banks, investment institutions and instruments that are involved in our cross-border lease contracts are monitored proactively. No direct credit loss was sustained in the first half of 2012.

Financial performance

General
The profit after tax for the first half of 2012 was € 82 million, down € 37 million compared with the same period in 2011. The net debt position increased and the solvency ratio was slightly lower, mainly due to the distribution in 2012 of dividend for 2011.

Income statement

Revenue
Revenue in the first half of 2012 was up by € 52 million compared with the first half of 2011, at € 868 million. This increase was largely the net effect of higher regulated revenue (€ 72 million) due to the increase in the tariffs and lower revenue from unregulated activities (€ 17 million).

Operating expenses
Total operating expenses for the first half of 2012 were € 685 million (first half 2011: € 626 million). The increase of € 59 million compared with the first half of 2011 can be attributed mainly to:

- higher expenditure on network maintenance and network innovation;
- higher sufferance taxes;
- higher depreciation due to higher capital expenditure;
- other cost increases, including costs regarding to organizational changes.

This increase was partly offset by lower operating expenses for unregulated activities, reflecting the lower activity level.

Finance income and expense

Finance income and expense in the first half of 2012 resulted in a net expense of € 60 million (2011: € 46 million). The increase of € 14 million was largely due to movements in the market value of the interest-rate hedging instruments.

In accordance with the financial policy interest-rate risks are partially hedged with the aforementioned instruments.

Share in results of associates and joint ventures

The lower share in the results of associates and joint ventures reflects lower results by Ziut and KEMA.

Taxation

The effective tax burden (the tax burden expressed as a percentage of profit before tax excluding the share in the results after tax of associates and joint ventures) for the first half of 2012 amounts to 28.2% (2011: 20.3%). The difference compared with the standard tax burden (25%) is largely due to non-deductible expenses and an adjustment relating to prior years.

Incidental items and fair value movements

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

Reported figures and figures excluding incidental items and fair value movements

	1st half					
	Reported		Incidental items and fair value movements		Excluding incidental items and fair value movements	
€ million	2012	2011[1]	2012	2011	2012	2011
Revenue	**819**	**763**	**-**	**-**	**819**	**763**
Other income	49	53	-	-	49	53
Total purchase costs, costs of subcontracted work and operating expenses	-598	-540	-12	-	-586	-540
Depreciation and impairments	-165	-150	-	-	-165	-150
Own work capitalised	78	64	-	-	78	64
Operating profit (EBIT)	**183**	**190**	**-12**	**-**	**195**	**190**
Finance income/(expense)	-60	-46	-12	10	-48	-56
Result from associates and joint ventures	-6	4	-	-	-6	4
Profit before tax	**117**	**148**	**-24**	**10**	**141**	**138**
Tax	35	29	6	-2	41	27
Profit after tax	**82**	**119**	**-18**	**8**	**100**	**111**

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

Notes to incidental items

The incidental items in 2012 relate mainly to organizational changes and movements in the value of the interest rate swaps. In 2011 the incidental item related mainly to the effect of euro/dollar exchange differences on cross-border lease-related investments and liabilities included in the balance sheet.

Segment information

Network operator Liander's operating result for the first half of 2012 was € 194 million, up € 16 million compared with 2011, mainly due to higher regulated tariffs. Network company Endinet posted an operating result of € 15 million in the first half of 2012, compared with € 14 million in the same period in 2011. The operating result for the Other segment (these consist mainly of the unregulated activities and staff departments and service units) was € 14 million negative (2011: € 2 million negative). The decrease was due partly to lower results by some group companies due to a decrease in revenue.

Cash flows

Cash flow from operating activities

Cash flow from operating activities in the first half of 2012 amounted to € 208 million (2011: € 242 million). The € 34 million decrease was mainly due to the lower profit after tax and movements in working capital.

Cash flow from investing activities

Capital expenditure on property, plant and equipment in the first half of 2012 amounted to € 250 million (2011: € 201 million). The € 49 million increase was mainly due to higher replacement investments and investments in metering devices.

Investment in property, plant and equipment

€ million	1st half	
	2012	2011
Electricity regulated	119	108
Gas regulated	78	62
Metering devices	22	12
Buildings, ICT etc.	31	19
Total	**250**	**201**

Cash flow from financing activities

Cash flow from financing activities in the first half of 2012 was an outflow of € 8 million compared with an outflow of € 88 million in the same period in 2011. The change reflects the issue of EMTNs and ECP and the redemption of EMTNs in 2012 (€ 500 million), the increase in cash placed on deposit and the higher dividend and coupon payments to shareholders and holders of the subordinated perpetual bond.

Financing and credit rating

Financial policy

Alliander's financial policy is aimed at achieving a balance between protection of bond holders and other providers of borrowed capital and an adequate shareholders' return while preserving the necessary flexibility to enable the company to grow and invest.

The financial framework within which Alliander operates is based on the four ratios presented in the key figures. As at 30 June 2012, all four ratios satisfied the standards set.

The general principles of the financial policy are to ensure a balanced repayment schedule and to have available committed credit facilities and sufficient cash and cash equivalents. By operating within the financial framework and in accordance with the general principles, a solid A rating profile is maintained.

Net debt position and financing

The net debt position as at 30 June 2012 amounted to € 1,460 million based on IFRS (31 December 2011: € 1,346 million) and € 1,707 million based on Alliander's financial policy (31 December 2011: € 1,593 million). The increase was due mainly to the distribution in 2012 of the dividend for 2011.

Reconciliation net debt position

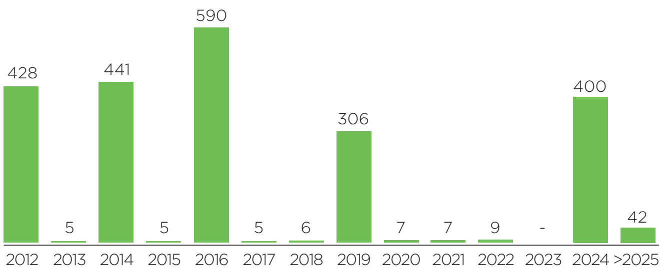
€ million	30 June 2012		31 December 2011	
Long-term interest-bearing debt	1,817		1,422	
Short-term interest-bearing debt	433		509	
Finance lease liabilities	137		133	
Gross debt		**2,387**		**2,064**
Cash and cash equivalents	97		106	
Non-current financial assets	137		130	
Interest-bearing receivables from third parties	40		38	
Current financial assets	475		295	
Investments held for lease obligations related to cross-border leases	178		149	
Total cash and cash equivalents and investments		**927**		**718**
Net debt in accordance with the annual financial statements (IFRS)		**1,460**		**1,346**
50% of the subordinated perpetual bond loan		247		247
Net debt on the basis of Alliander's financial policy		**1,707**		**1,593**

Credit facilities

As at 30 June 2012, the revolving credit facility (RCF) available to Alliander amounted to € 600 million expiring on 31 July 2016. For the period July 2016 up to July 2017 Alliander has avaliable € 500 million under this facility. Alliander also has a € 3 billion EMTN programme, of which bonds totalling € 1.7 billion had been issued as at 30 June 2012 (31 December 2011: € 1.8 billion), and a € 1.5 billion ECP programme, on which € 0.4 billion had been drawn as at 30 June 2012 (31 December 2011: nil). No draw had been made on the RCF as at 30 June 2012 (unchanged from 31 December 2011).

Interest-bearing debt repayment schedule

€ million



Repayments in the second half of 2012 relate exclusively to the ECP programme. The repayments in the next few years largely relate to the bond loans issued under the EMTN programme.

Credit rating

Alliander's credit ratings in the first half of 2012 were unchanged and were as follows as at 30 June 2012:

Credit ratings

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

Statement by the Management Board

The Management Board hereby declares that, to the best of its knowledge:

1. The consolidated half-year results for 2012 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 report by the Management Board presents a true and fair account of the state of affairs as at balance sheet date, the main events during the half-year and details of the principal risks and uncertainties for the remaining six months of 2012 for Alliander N.V. and its consolidated group companies.

Arnhem, 25 July 2012

The Management Board
Peter Molengraaf, Chairman
Mark van Lieshout

4 condensed consolidated half-year financial statements 2012

Consolidated income statement

€ million	1st half			
	2012		2011[1]	
Revenue	**819**		**763**	
Other Income	49		53	
Total income		**868**		**816**
Operating expenses				
Purchase costs and costs of subcontracted work	-206		-213	
Employee benefit expenses	-222		-192	
External personnel expenses	-63		-47	
Other operating expenses	-107		-88	
Total purchase costs, costs of subcontracted work and operating expenses	**-598**		**-540**	
Depreciation and impairment of property, plant and equipment	-165		-150	
Less: Own work capitalised	78		64	
Total operating expenses		**-685**		**-626**
Operating profit (EBIT)		**183**		**190**
Finance income		36		41
Finance expense		-96		-87
Result from associates and joint ventures after tax		-6		4
Profit before tax		**117**		**148**
Tax		35		29
Profit after tax		**82**		**119**

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

€ million	1st half	
	2012	2011[1]
Profit after tax	**82**	**119**
Other elements of comprehensive income		
Revaluation of available-for-sale assets	18	6
Movement in fair value cash flow hedges	1	-
Comprehensive income	**101**	**125**

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

Consolidated balance sheet

€ million	30 June 2012		31 December 2011	
Assets				
Non-current assets				
Property, plant and equipment	5,662		5,575	
Intangible assets	320		320	
Investments in associates and joint ventures	35		54	
Available-for-sale financial assets	315		279	
Other financial assets	40		38	
Deferred tax assets	309		346	
		6,681		**6,612**
Current assets				
Inventories	29		28	
Trade and other receivables	358		277	
Derivatives	10		-	
Tax assets	7		-	
Other financial assets	475		295	
Cash and cash equivalents	97		106	
		976		**706**
Total assets		**7,657**		**7,318**
Equity & liabilities				
Equity				
Share capital	684		684	
Share premium	671		671	
Subordinated perpetual bond	494		494	
Hedge reserve	-4		-5	
Revaluation reserve	18		-	
Other reserves	1,104		984	
Profit after tax	82		251	
Total equity		**3,049**		**3,079**
Liabilities				
Non-current liabilities				
Interest-bearing debt	1,817		1,422	
Derivatives	115		120	
Finance lease liabilities	137		133	
Deferred income	1,520		1,505	
Deferred tax liabilities	1		-	
Provisions for employee benefits	66		55	
Other provisions	35		29	
		3,691		**3,264**
Short-term liabilities				
Trade and other payables	88		93	
Tax liabilities	75		59	
Interest-bearing debt	433		509	
Derivatives	56		49	
Provisions for employee benefits	56		58	
Accruals	209		207	
		917		**975**
Total liabilities		**4,608**		**4,239**
Total equity and liabilities		**7,657**		**7,318**

Consolidated cash flow statement

€ million	1st half 2012		2011[1]	
Cash flow from operating activities				
Profit after tax		**82**		**119**
Adjustments for:				
- Finance income and expense		60		46
- Tax		35		29
- Profit after tax from associates and joint ventures		6		-4
- Depreciation and impairment less amortisation		136		122
Changes in working capital:				
- Inventories	-1		1	
- Trade and other receivables	-88		-19	
- Trade and other payables and accruals	11		-11	
Total changes in working capital		**-78**		**-29**
Changes in deferred tax, provisions, derivatives and other		20		9
Cash flow from operations		**261**		**292**
Net interest paid	-63		-61	
Net interest received	2		3	
Dividends received from associates and joint ventures	15		1	
Corporate income tax received (paid)	-7		7	
Total		**-53**		**-50**
Cash flow from operating activities		**208**		**242**
Cash flow from investing activities				
Investments in property, plant and equipment	-250		-201	
Construction contributions received	44		39	
Investments in financial assets (associates and joint ventures)	-3		-4	
Cash flow from investing activities		**-209**		**-166**
Cash flow from financing activities				
Changes in current interest-bearing liabilities and current part of long-term debt	-87		-24	
Long-term debt issued	400		1	
Long-term debt repaid	-4		-	
Change in current deposits	-180		30	
Interest coupon subordinated perpetual bond	-24		-15	
Dividend paid	-113		-80	
Cash flow from financing activities		**-8**		**-88**
Net cash flow		**-9**		**-12**
Cash and cash equivalents as at the start of the period		106		501
Net cash flow		-9		-12
Cash and cash equivalents as at 30 June		**97**		**489**

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

Consolidated statement of changes in equity

€ million	Share capital	Share premium	Sub-ordinated perpetual bond	Hedge reserve	Reva-luation reserve	Other reserves	Profit for the year	Total
	Equity attributable to shareholders and other providers of equity							
As at 1 January 2011	**684**	**671**	**494**	**-12**	**-7**	**854**	**222**	**2,906**
Movement in fair value cash flow hedges	-	-	-	-22	-	-	-	**-22**
Revaluation of available-for-sale financial assets	-	-	-	-	7	-	-	**7**
Termination hedge relation	-	-	-	29	-	-	-	**29**
Profit after tax for 2011	-	-	-	-	-	-	251	**251**
Comprehensive income for 2011	**-**	**-**	**-**	**7**	**7**	**-**	**251**	**265**
Interest coupon subordinated perpetual bond after tax	-	-	-	-	-	-12	-	**-12**
Dividend for 2010	-	-	-	-	-	-	-80	**-80**
Profit appropriation for 2010	-	-	-	-	-	142	-142	**-**
As at 31 December 2011	**684**	**671**	**494**	**-5**	**-**	**984**	**251**	**3,079**
Movement in fair value cash flow hedges	-	-	-	1	-	-	-	**1**
Revaluation of available-for-sale financial assets	-	-	-	-	18	-	-	**18**
Profit after tax for 2012	-	-	-	-	-	-	82	**82**
Comprehensive income for the first half of 2012	**-**	**-**	**-**	**1**	**18**	**-**	**82**	**101**
Interest coupon subordinated perpetual bond after tax	-	-	-	-	-	-18	-	**-18**
Dividend for 2011	-	-	-	-	-	-	-113	**-113**
Profit appropriation for 2011	-	-	-	-	-	138	-138	**-**
As at 30 June 2012	**684**	**671**	**494**	**-4**	**18**	**1,104**	**82**	**3,049**

Dividend

The dividend relating to the 2011 financial year (€ 113.0 million) was distributed in April 2012 (€ 0.83 per share).

Subordinated perpetual bond loan

The subordinated perpetual bond loan is treated as equity, since Alliander does not have any contractual obligation to repay the loan. Any periodical payments on the loan are also conditional and depend on payments to shareholders.

Coupon interest of € 24 million (€ 18 million after tax) was paid to holders of this loan in June 2012. The payment related to the period July 2011–June 2012 and was charged to Other reserves.

Notes to the consolidated half-year figures

General

Alliander N.V. is a public limited liability company, registered in Arnhem, the Netherlands. This half-year report contains the financial information for the first half of 2012 relating to the company and its subsidiaries.

The half-year figures have been prepared in accordance with IAS 34 Interim Financial Reporting.

Accounting policies

This report applies the same accounting policies as for the 2011 annual report of Alliander N.V., which can be found at www.alliander.com, apart from the following amendments to the standards and interpretations effective from 1 January 2012.

New or amended IFRS standards for 2012

The 'Transfers of Financial Assets' section of IFRS 7 'Financial Instruments: Disclosures' has been revised with a view to increasing the transparency of reporting on transfers, particularly those involving the securitisation of financial assets. This amendment does not affect Alliander. As at the reporting date, no changes approved by the EU are scheduled to be implemented during the 2012 reporting year that will necessitate any change to Alliander N.V.'s accounting policies.

Estimates and assumptions

In preparing this half-year report, Alliander makes use of estimates and assumptions. In particular, this affects the determination of provisions, the estimate of the useful lives of property, plant and equipment, revenue recognition, the measurement of receivables and the measurement of the deferred tax assets.
The estimates and assumptions 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. Actual developments may differ from the estimates and assumptions used. As a result, the actual outcome may differ significantly from the current measurement of a number of items in the financial statements. The estimates and assumptions used are tested regularly and adjusted if necessary. There have been no changes to the estimates and assumptions since year-end 2011.

Segment information

The figures for each reporting segment, excluding incidental items and fair value movements, are shown in the table below. These figures directly reflect the regular internal reporting. A reconciliation between the consolidated segment operating profits and the reported consolidated profit before tax is also shown.

Reconciliation segment operating profits and consolidated profit

	1st half	
€ million	2012	2011
Consolidated segment operating profits excluding incidental items	**195**	**190**
Incidental items and fair value movements	-12	-
Financial income and expense	-60	-46
Share in results from associates and joint ventures	-6	4
Consolidated profit before tax	**117**	**148**

Primary segmentation

€ million	Network operator Liander 2012	Network operator Liander 2011	Network company Endinet 2012	Network company Endinet 2011	Other 2012	Other 2011	Eliminations 2012	Eliminations 2011	Total 2012	Total 2011
Revenue										
External revenue	771	696	55	54	42	66	-	-	**868**	**816**
Internal income	5	5	-	-	153	133	-158	-138	**-**	**-**
Total revenue	**776**	**701**	**55**	**54**	**195**	**199**	**-158**	**-138**	**868**	**816**
Operating expenses										
Total operating expenses	582	523	40	40	209	201	-158	-138	**673**	**626**
Operating profit	**194**	**178**	**15**	**14**	**-14**	**-2**	**-**	**-**	**195**	**190**
Segment assets	30-6	31-12	30-6	31-12	30-6	31-12	30-6	31-12	30-6	31-12
Total assets	**5,959**	**5,840**	**527**	**534**	**4,352**	**3,799**	**-3,181**	**-2,855**	**7,657**	**7,318**

Seasonal influences

Alliander's results are not materially affected by seasonal influences.

Cross-border lease contracts

In the period 1998-2000, subsidiaries of Alliander N.V. (since 1 July 2010 also including Endinet) entered into US cross-border leases for networks, including LILO (lease-in lease-out) and SILO (sale-in lease-out) transactions. The seven transactions currently remaining relate to the gas networks in Friesland, Gelderland, Flevoland, Noord-Holland, Zuid-Holland, Noord-Brabant and Utrecht, the district heating networks in Almere and Duiven/Westervoort and the electricity network in the Randmeren region. The networks have been leased for a long period to US parties (head lease), which, in turn, have subleased the assets to the various Alliander subsidiaries (sublease). At the end of the sublease there is the option of purchasing the rights of the American counterparty under the head lease, thus ending the transaction. The terms agreed for the subleases expire between 2015 and 2028. The fees earned on the cross-border leases were recognised in the year in which the transaction in question was concluded. There are conditional and unconditional contractual rights and obligations relating to the cross-border leases. Security in the form of mortgages and pledges has been granted on parts of the networks within the framework of the obligations entered into.

The total net carrying amount of the assets forming the object of cross-border leases, as at mid-2012, amounted to approximately € 1.2 billion (the same as at year-end 2011). At the end of June 2012, a total of $ 4.1 billion (year-end 2010: $ 4.0 billion) was held on deposit with several financial institutions or invested in securities in connection with these transactions. Since no powers of disposal exist over the majority of the assets concerned and associated liabilities, they are not regarded as assets and liabilities of Alliander and the respective amounts are not recognised in the consolidated financial statements of Alliander. The assets over which Alliander has powers of disposal are recognised in the financial assets. The associated lease payment obligations are recognised in finance lease liabilities.

At the end of June 2012, the maximum 'strip risk' (the portion of the 'termination value' - the possible compensation payable to the American counterparty in the event of premature termination of the transaction - which cannot be settled from the deposits and investments held for this purpose) for all transactions together was $ 390 million (year-end 2011: $ 450 million). To cover the equity part of the strip risk, amounting to $ 240 million at the end of June 2012 (year-end 2011: $ 268 million), Alliander has provided the investors involved with security in the form of letters of credit for an amount of $ 74 million (year-end 2011: $ 103 million) in various transactions. The number and size of the letters of credit to be issued depends partly on Alliander's credit rating.

Other

Existing financial commitments relating to property, plant and equipment not shown on the face of the balance sheet as at 30 June 2012 amounted to € 89.3 million (year-end 2011: € 80.0 million).
Compared with the situation as at year-end 2011, there have been no material changes in the contingent assets and liabilities. Within the fair value hierarchy of our financial instruments measured at fair value there have been no transfers between the levels

Events after balance sheet date

Alliander acquired a 95% interest in Indigo B.V. on 10 July 2012. This company, which is a partnership between Alliander and the municipality of Nijmegen (5% interest), will install a main pipeline from heat generator Afvalverwerking Regio Nijmegen (ARN) to the heat distribution grid to be built by Nuon Energy. Total capital expenditure by Alliander will be around € 10 million. The district heating system is scheduled to come on stream in 2015.

5 auditors' review report

Auditors' review report

To the Supervisory Board and the Management Board of Alliander N.V.

Introduction

We have reviewed the 2012 condensed consolidated half-year financial statements of Alliander N.V., Arnhem, comprising the balance sheet as at 30 June 2012, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the period 1 January 2012 to 30 June 2012 and the related notes. The company's Management Board is responsible for the preparation and presentation of the 2012 condensed consolidated half-year financial statements in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union.
Our responsibility is to express a conclusion on the 2012 condensed consolidated half-year financial statements based on our review.

Scope

We conducted our review of the 2012 condensed consolidated half-year financial statements in accordance with Dutch law, including Standard 2410 The Review of Interim Financial Information by an Entity's Independent Auditors. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Dutch auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated half-year financial statements for the period 1 January 2012 to 30 June 2012 are not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union.

Rotterdam, 25 July 2012
PricewaterhouseCoopers Accountants N.V.

Originally signed by:
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