Alliander N.V.
Half-year results 2010

6 September 2010

alliander

Disclaimer

This report for the first half of 2010 is a translation of the Dutch report on the consolidated results for first half of 2010 of Alliander N.V. Although this translation has been prepared with the utmost care, deviations from the Dutch report might nevertheless occur. In such cases, the Dutch report prevails. 'We', 'Alliander', 'the company', 'the Alliander Group' or similar expressions are used in this report as a synonym for Alliander N.V. and its subsidiaries, together constituting a network company. 'Liander' refers to Liander N.V. and its subsidiaries, together constituting a grid manager. 'Liandon' refers to Liandon B.V. and its subsidiaries. Alliander N.V. is the sole shareholder of Liander N.V., Liandon B.V., Alliander Finance B.V., Alliander AG and Stam Heerhugowaard Holding B.V.

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

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

This half-year report has been prepared using the accounting policies applied in the preparation of the 2009 financial statements of Alliander N.V., which can be found on www.alliander.com. It does not contain all information prescribed by IFRS for interim financial reporting. To obtain a complete picture, this report must therefore be considered in conjunction with the 2009 Annual Report of Alliander N.V. published in April 2010.

This report has not been audited.

Contents

Profile

Alliander

Alliander is an energy network company owning electricity and gas distribution grids covering roughly one third of the Netherlands and employs a workforce of approximately 6,000.

Alliander's subsidiary Liander performs the statutory management task in respect of the cables, pipelines and associated assets in the provinces of Gelderland, Friesland, Flevoland, Noord-Holland and part of Zuid-Holland and is responsible for the energy infrastructure connections of 2.9 million customers and for transporting electricity and gas to them. Alliander also provides services relating to the construction and maintenance of complex energy infrastructures via its subsidiary Liandon.

Alliander aims to discharge its public responsibilities in a dedicated and reliable manner, a fundamental aspect of this being the achievement of balanced growth for all stakeholders: customers, employees, shareholders, the environment and society at large. Alliander acts at all times with an acute awareness of the significance of energy to its customers and to society.

Alliander also feels a responsibility to facilitate moves towards greater sustainability in Dutch energy supplies. The increase in sustainable, more decentralised power generation makes demands on the energy infrastructure and means a challenge for network companies. Alliander sees it as its responsibility, together with other market participants, to make that increasing sustainability possible at an acceptable cost to society.

Alliander's largest shareholders are the provinces of Gelderland, Noord-Holland and Friesland (via B.V. Houdstermaatschappij Falcon), as well as the City of Amsterdam. In addition, the province of Flevoland and various municipalities in the provinces of Noord-Holland, Zuid-Holland, Gelderland and Flevoland are shareholders.

Key figures

Key figures			
€ million, unless otherwise stated			
		1st half	
Financial	**2010**	2009 *	change
Revenue	**679**	720	-6%
Other income	**51**	241	-79%
Purchase costs, costs of subcontracted work and operating expenses	**601**	637	-6%
Operating profit (EBIT)	**129**	324	-60%
Profit after tax	**62**	207	-70%
Operating profit excluding incidental items and fair value movements	**148**	177	-16%
Profit after tax excluding incidental items and fair value movements	**70**	89	-22%
Investment in property, plant and equipment	**157**	186	-16%
Cash flow from operating activities	**163**	139	
Cash flow from investing activities	**-130**	233	
Cash flow from financing activities	**211**	-272	
Free cash flow[1]	**33**	4	
	30-6-2010	31-12-2009	
Total assets	**6,756**	6,756	
Total shareholders' equity	**2,247**	2,245	
Net debt [2]	**1,344**	1,382	
Ratios			
ROIC [3]	**7.0%**	7.8%	
FFO / net debt [4]	**24.6%**	25.4%	
Interest cover [5]	**4.4**	3.7	
Net debt / (net debt + shareholders' equity)	**37.4%**	38.7%	
Solvency [6]	**42.4%**	41.6%	
Employees	**30-6-2010**	31-12-2009	30-6-2009
Number of permanent staff (in FTE) [7]	**4,940**	4,633	4,716
Number of temporary staff (in FTE) [7]	**848**	1,083	1,287
Customers			
Customer satisfaction, consumer market [8]	**93%**	89%	87%
Customer satisfaction, business market including municipalities [8]	**88%**	87%	79%
Electricity outage (minutes) [9]	**29.5**	27.4	25.1

* excluding Nuon Energy, see page 7

1. Free cash flow is defined as the cash flow from operating activities less the net investment in property, plant and equipment (gross investment in property, plant and equipment less divestment, construction contributions, investment grants and subsidies), investment in intangible assets and investment in associates and joint ventures.

2. Net debt is defined as interest-bearing debt less cash and cash equivalents 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.

4. The Funds From Operations / net debt ratio is the 12-month profit after tax adjusted for deferred tax asset movements and incidental items and fair value movements plus depreciation of property, plant and equipment and amortisation of intangible assets, as a percentage of net debt.

5. The interest cover ratio is the 12-month profit after tax adjusted for deferred tax asset 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.

6. The solvency ratio is obtained by dividing total shareholders' equity including the profit for the period by total assets less deferred income.

7. FTE (full-time equivalent) refers to the numbers of employees calculated on the basis of a full working week.

8. Customer satisfaction in both the consumer and business markets is measured by an external agency several times a year using random surveys.

9. The outage duration expresses in minutes the average time for which our customers are without electricity over a 12-month period.

Summary of significant events

Highlights of the first half of 2010

General

Unbundling

On 22 June 2010, the Court of Appeal in The Hague upheld an appeal brought by three energy companies (Essent, Eneco and Delta) challenging the validity of the clauses in the Dutch Independent Network Operation Act (WON) prohibiting ancillary activities, deciding that the provisions ran counter to the free movement of capital. The Court also ruled that there were no compelling reasons in the public interest to justify unbundling. The Dutch government immediately announced its intention of seeking to have the appeal court's decision overturned in the Supreme Court. The ruling by the Court of Appeal means that energy companies are not under obligation to create production and supply companies that are separate from network companies. The provision prohibiting privatisation, i.e. stipulating that the grids should remain in public ownership, continues to apply. Although the Court ruling does not have any operational consequences for the company, Alliander is looking into possible implications of the decision in the future.

An important milestone was reached with the completion of the IT Unbundling programme. With effect from 1 July 2010, Alliander and Nuon Energy have been fully independent entities as regards ICT systems as well.

Takeover of Endinet

Following the announcement on 11 December 2009 of the proposed acquisition of the shares of network company Endinet B.V. (Endinet), a due diligence investigation was conducted in January 2010, on the basis of which a finalised purchase agreement was drawn up. Formal signing of the agreement took place on 4 March 2010. The Netherlands Competition Authority (NMa) and the Minister of Economic Affairs both cleared the takeover in March. The actual (legal) transfer of the shares took place on 1 July 2010. The purchase price, of € 712 million, was paid out of cash reserves on 1 July 2010.

Endinet has annual revenues of around € 110 million and employs a workforce of approximately 250. The combination of the business with Endinet strengthens Alliander's position as the largest network company in the Netherlands, enabling the company to shape the transition to a more sustainable energy supply system more effectively in partnership with the other Dutch network companies. The takeover of Endinet is entirely in line with the strategic framework established by the Kist Committee (set up to look into the public ownership of energy companies). In the Kist Committee's view, a redistribution of areas served by grid managers is called for. The existing playing field, with more than ten fragmented grid managers, should be consolidated into between three and five companies with a logical regional coverage. The Minister of Economic Affairs accordingly appointed the Grid Management Vision Steering Group on 16 June 2010, with a remit which includes looking at the organisation of grid management in the Netherlands. The steering group is to make its recommendations later this year.

Takeover of Stam & Co

On 16 March 2010, Alliander acquired the shares of the contractor Stam Heerhugowaard Holding B.V. (Stam & Co), based in Heerhugowaard. The purchase price was € 11 million. Stam & Co has annual revenues of around € 24 million and employs approximately 150 people. The takeover assures Alliander of ample capacity as regards field engineers in Noord-Holland. The financial information of Stam & Co has been included in the Alliander consolidation with effect from 16 March 2010 (date of acquisition). The profit contribution for the period up to 30 June 2010 was minimal.

Refinancing

On 30 March 2010, Alliander replaced the existing revolving credit facility (RCF) of € 875 million, which was due to expire in November 2011, by contracting a new RCF for a total amount of € 600 million, which runs up to March 2015. On 18 June 2010, the EMTN and ECP programmes were also renewed and the issuing company was changed at the same time from Alliander Finance B.V. to Alliander N.V., so that all future issues under these programmes will be made in the name of Alliander N.V.

Rating

On 11 March 2010, Moody's revised the long-term rating of Alliander N.V. and Alliander Finance B.V. upward from A2 to Aa3. The short-term rating of Prime-1 was reaffirmed. The outlook for all ratings remains stable. The rise reflects Moody's expectation that the willingness of the shareholders to provide support in exceptional circumstances has increased because Alliander has become a pure network company as a consequence of the unbundling. On 6 August 2010, Standard & Poor's reaffirmed its long-term and short-term ratings of A/Stable/A-1.

Regulatory developments

After a lengthy period of uncertainty, there appears to be some movement in the political decision-making process regarding the bill to amend legislation relating to smart meters and the new market model. The Lower House of the Dutch Parliament is expected to consider the amending bill after the summer, bringing the prospect of a large-scale rollout of smart meters on a pilot basis that much closer.

The Regulatory Industrial Organisation Appeals Court upheld the appeal brought by Liander against the failure of the NMa's adopted method for electricity to include in full the cost of sufferance tax (local tax for use of municipal land). This decision is expected to have a beneficial effect in the calculation of allowances for sufferance taxes in the permitted revenues from electricity in the years ahead.

Next year sees the start of the new regulatory periods (2011 - 2013) for electricity (the fifth such period) and for gas (the fourth such period). The calculation methods to be used still have to be decided by the NMa.

Sufferance tax

There is to be no sufferance tax exemption for the grids of public utilities. Following the highly critical report from the Council of State on 30 June 2009 regarding the proposed legislation exempting the grids of public utilities from sufferance tax, the government accepted the Council of State's advice and decided not to introduce the bill to parliament. The Council of State had previously opined that the proposed legislation would be more likely to result in a shifting of the tax burden rather than relief. In view of the economic crisis, the government felt this to be undesirable.

Customers

Among consumers as well as in the business market (including municipal authorities), customer satisfaction is exhibiting an upward trend, with ratings at the end of June 2010 of 93% and 88%, respectively. For the consumer market, too, Alliander now occupies the benchmark position.

Ensuring the continuous distribution of energy to our customers via a reliable grid is our principal objective. The reliability of the electricity supply is reflected in the outage figure. Compared with the situation at the end of June 2009, there was an increase in the average outage duration, owing to several extensive and prolonged power failures.

Investment

Investments in the electricity and gas grids in the first half of 2010 were lower than in the corresponding period in 2009. This was due to the relatively long period of frosty weather, plus the fact that the recession meant that plans for a number of larger connections were shelved. The amount of replacement investment initiated by Alliander was up, however, relative to the first half of 2009.

Innovations

Alliander is participating in Amsterdam Smart City (ASC). ASC is an independent partner for climate and energy projects. The organisation brings together companies, public authorities and end-users in the use of smart energy solutions and for trying out new technologies in Amsterdam. Carbon footprint reduction projects already under way include the 'Climate Street' project, the ITO Tower, in which various energy-saving technologies are being tested in a modern office building, and two separate 'Sustainable Living' projects, in which 1,000 homes will be testing energy displays and smart meters.

Liander and Enexis have also signed a partnership agreement for the 'Energie in beeld' programme, which is intended to permit the two grid managers to support municipalities in achieving their climate change objectives. Both grid managers are developing new products and services for precise monitoring of electricity and gas consumption district by district or for an entire municipality. The municipality of Haarlem, for instance, is using energy consumption figures for the town to draw the attention of people living in older districts to the advantages of insulation. Both grid managers are also supporting municipalities with the analysis of measurement data. The grid managers are shortly due to launch a pilot project involving a number of municipalities with the aim of further developing the scope of the programme and obtaining a clear picture of the requirements and needs of users.

More than a third of all disruptions affecting our grid are caused by excavation activities. Excavation damage is accordingly a major factor in the outage figure. Starting in 2009, Liander has been successfully piloting Cable Tracks, a new, innovative prevention and recording system. Cable Tracks records where attempts have been made to locate underground cables and/or where exploratory trenches have been dug. Studies have shown that prevention in relation to work involving excavating machinery can reduce excavation damage by more than half. The system will shortly be made available to Liander-approved contractors.

In addition to the information available by calling the National Emergency Number for power failures, grid manager Liander launched an SMS service early in 2010, enabling people who register with the service on the appropriate website to obtain information on their mobile phones whenever there is a power failure. The text message will say what the problem is and how long it is expected to be before power is restored. This service has been instituted in order to further improve the provision of information to customers.

Other innovative projects currently in hand include the injection of biogas into the gas grids and a trial involving the 'microgrid' concept, with local battery storage so that, if the main grid supply fails, the microgrid can continue to supply power independently for a time.

Financial

IFRS and comparative figures

As mentioned in the interim report on the second half of 2009 published on 15 February 2010, the figures reported by Alliander with effect from 1 January 2009 no longer contain results of Nuon Energy because the latter company has been separated from n.v. Nuon in financial terms with retroactive force back to that date. Although the legal unbundling did not take place until 30 June 2009, with the object of providing a more accurate view for comparison purposes, the comparative figures in the income statement for the first half of 2009 (H1/2009) were prepared on the basis of the altered situation as at 1 January 2009. This method of presentation is not entirely in line with IFRS, under which the date of transfer of

control (30 June 2009) and not the date of the financial unbundling (1 January 2009) is the relevant date for recognition. The Appendix to this report presents the comparable income statement prepared strictly in accordance with IFRS, based on the date of transfer of control; this income statement shows the result of Nuon Energy in the line 'Profit after tax from discontinued operations'. For the financial impact of the unbundling of Nuon Energy with effect from 1 January 2009, reference is made to the interim report on the first half of 2009 published on 28 September 2009.

Financial results

- The profit after tax for the first half of 2010 was € 62 million (H1/2009: € 207 million). The profit after tax adjusted for incidental items and fair value movements declined to € 70 million (H1/2009: € 89 million), mainly reflecting tariff reductions imposed by the regulator.
- Standard & Poor's A grade credit rating reaffirmed, Moody's credit rating revised upwards to Aa3 (A2).

The operating profit (EBIT) for the first half of 2010 was down, at € 129 million. The drop of € 195 million was mainly the effect of the absence of the proceeds from the sale of the high-voltage grids (HV-grids) to TenneT in H1/2009, amounting to € 168 million (before tax).

The operating profit excluding incidental items for the first half of 2010 (see page 24), amounting to € 148 million, was € 29 million lower than for the corresponding period in 2009. This decline is chiefly the net effect of the reduction in operating income (€ 63 million) and an associated reduction in operating expenses (€ 34 million).

The profit after tax for the first half of 2010 was down by € 145 million compared with the corresponding period in 2009, at € 62 million. This drop is mainly accounted for by the reduction of € 195 million in the operating profit, mitigated to some extent by lower net finance expense and lower tax.

The profit after tax excluding incidental items (see page 24) for the first half of 2010 was down by € 19 million compared with the corresponding period in 2009, at € 70 million. The main reason for the lower figure is the drop of € 29 million in the operating profit mentioned above, mitigated by lower net finance income and expense (€ 2 million) and tax (€ 8 million).

For a more detailed explanation of the above results, see pages 12 and 13 (Notes to the consolidated income statement).

Cash flows and investments

The cash flow from operating activities in the first half of 2010 was a net inflow of € 163 million (H1/2009: € 139 million). The cash flow from investing activities amounted to a net outflow of € 130 million (H1/2009: € 233 million inflow). The cash flow from financing activities in the first half of 2010 was a net inflow of € 211 million compared with an outflow of € 272 million in H1/2009, chiefly as a consequence of liquidating temporally invested funds and time deposits. For a more detailed explanation of the above cash flows, see page 17 (Notes to the consolidated cash flow statement).

The investments in non-current assets in the first half of 2010, totalling € 121 million net of contributions received, were down by € 14 million compared with the first half of 2009. This drop was mainly due to lower investments in the grids and in ICT assets. The number of new electricity connections in the first half of 2010 was down slightly. The lower level of investment in ICT is a consequence of the reduction in the number of projects connected with the unbundling of Nuon Energy.

Net debt position

The net debt position at the end of the first half of 2010 amounted to € 1,344 million (31 December 2009: € 1,382 million).

Balance sheet

Reported shareholders' equity as at 30 June 2010 shows a small increase, of € 2 million, compared with the position as at year-end 2009. The effect of adding the profit after tax for the first half of 2010, amounting to € 62 million, was reduced by a combination of the dividend payment in May 2010, totalling € 54 million, and changes in the hedge and revaluation reserves.

Ratios

Alliander's financial policy is monitored on the basis of four ratios. As at 30 June 2010, Alliander satisfied the minimum values for all four. See page 19 for further details.

Other

Compared with the position as at 30 June 2009, the total strength of the workforce, permanent and temporary staff , was down by 215 FTE as at 30 June 2010. This decline was the combined effect of the transfer of 300 FTE from Liandyn to the joint venture with Enexis (Ziut B.V.), the acquisition of Stam & Co (188 FTE) and a reduction of 103 FTE, mainly affecting the corporate staff departments. The number of temporary staff has been sharply reduced, partly in connection with cost savings, with their work taken over by permanent staff in some cases.

At the end of 2009, agreement was reached with the American investor concerned regarding the premature cancellation of two trusts relating to the cross-border lease transaction which was entered into in 1999 in respect of the gas grid in the Apeldoorn region. This decreased the total of the 'strip risk'. The actual closing of the transaction was effected on 26 January 2010. The financial impact on results had already been accounted for in the 2009 figures.

Events after balance sheet date

On 1 July 2010, Alliander acquired the shares of network company Endinet B.V. With effect from this date, Endinet will be included in the consolidation. With this acquisition, Alliander continues to satisfy the minimum ratios required by the company's financial policy (see page 19).

Arnhem, 27 August 2010

Management Board
Peter Molengraaf, Chairman
Mark van Lieshout

Consolidated income statement for the first half of 2010

Consolidated income statement				
€ million				
	1st half			
	2010		2009 *	
Revenue	**679**		**720**	
Other income	51		241	
Total income		**730**		**961**
Purchase costs and costs of subcontracted work	207		183	
Employee compensation and benefit expenses	177		191	
External personnel expenses	56		82	
Other operating expenses	105		125	
Total purchase costs, costs of subcontracted work and operating expenses	545		581	
Depreciation and impairment of property, plant and equipment	110		106	
Less: Own work capitalised	-54		-50	
Total operating expenses		601		637
Operating profit (EBIT)		**129**		**324**
Finance income and expense		-49		-76
Share in results of associates and joint ventures after tax		3		4
Profit before tax from continuing operations		**83**		**252**
Tax		21		45
Profit after tax from continuing operations		62		207
Profit after tax from discontinued operations		-		-
Profit after tax		**62**		**207**
Earnings per share (€)		0.45		1.51

Consolidated statement of comprehensive income				
€ million	1st half			
	2010		2009 *	
Profit after tax		62		207
Revaluation financial available-for-sale assets		3		9
Comprehensive income attributable to shareholders		**65**		**216**
Fair value movements	-9		-	
Total other total result after tax		-9		-
Total result for the period		56		216
Total result attributable to:				
- Alliander shareholders		56		216
- minority shareholders		-		-

* The comparative figures for 2009 are pro forma; the income statement prepared strictly on the basis of IFRS can be found on page 23 of this report.

Incidental items and fair value movements in the result

General

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

Incidental items and fair value movements

The incidental items and fair value movements in the first half of 2010 represented a net loss of € 8 million after tax (H1/2009: gain of € 118 million). Notes on the more important items are given below.

Impact on operating profit

(H1/2010: € 19 million loss, H1/2009: € 147 million gain)

The incidental loss in the first half of 2010 concerns the result from investments relating to cross-border leases. The incidental gain in H1/2009 is made up of the gross book profit on the sale of the HV-grids to TenneT, amounting to € 168 million, and the incidental expense of € 23 million in respect of bonuses paid to employees in connection with the unbundling.

Impact on profit before tax

(H1/2010: € 9 million gain, H1/2009: € 15 million loss)

The incidental net income of € 12 million in the first half of 2010 is essentially the effect of the gain in value of € 19 million on an interest rate instrument connected with the financing of the Endinet acquisition and a net loss on the fair value of other financial instruments (€ 7 million). The incidental expense in H1/2009, amounting to € 16 million, was the interest expense on provisional corporation tax assessments which were paid.

Impact on profit after tax

(H1/2010: € 2 million gain, H1/2009: € 14 million loss)

The tax effect on the incidental items in 2010 amounted to a gain of € 2 million (H1/2009: loss of € 26 million). Additionally, incidental income of € 12 million was recognised in H1/2009 in connection with the release of previous estimates of the amount of corporation tax payable in respect of preceding years.

Overview of incidental items and fair value movements

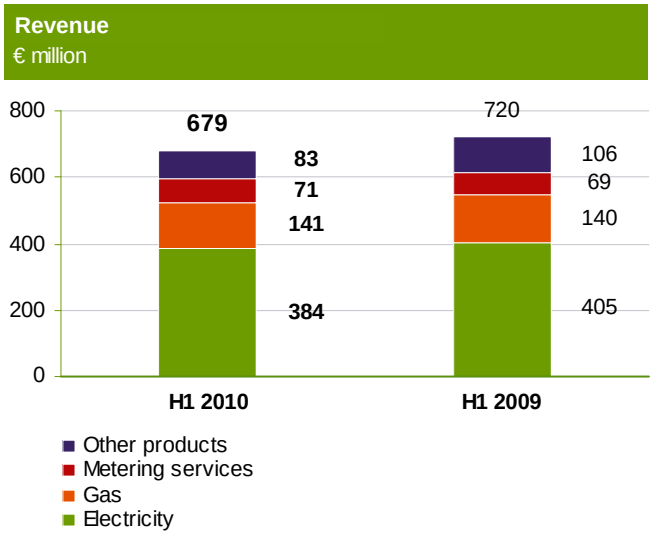
€ million

	1st half	
	2010	2009 *
Results on cross-border lease-related investments	-19	2
Book profit on sale of HV-grids to TenneT	-	168
Reservation for staff bonuses	-	-23
Total impact on operating profit from continuing operations	**-19**	**147**
Interest rate swaps related to Endinet acquisition	19	-
Fair value movements on financial instruments	-7	-
Interest relating to corporate income tax payable for prior years	-	-16
Foreign exchange result on a cross-border lease-related investment	-3	1
Total impact on profit before tax from continuing operations	**-10**	**132**
Tax effect of incidental items	2	-26
Release of corporate income tax payable for prior years	-	12
Total impact on profit after tax	**-8**	**118**

* The comparative figures are pro forma.

Notes to the consolidated income statement for the first half of 2010

Revenue

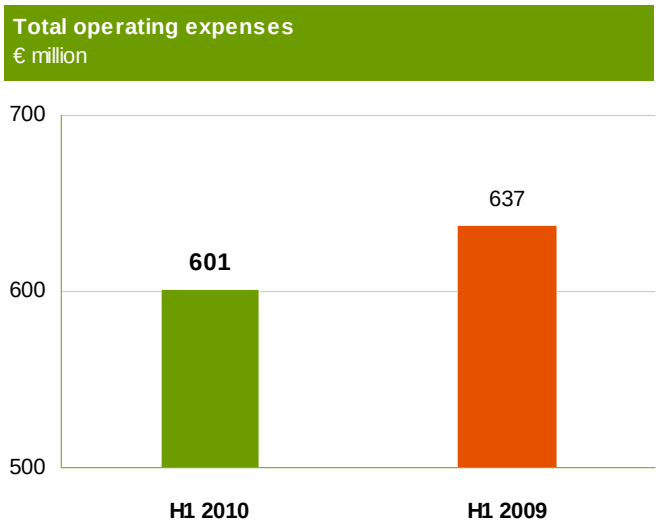


Revenue for the first half of 2010, at € 679 million, was down by € 41 million (6%) compared with the corresponding period in 2009. This fall was mainly due to the effect of reduced tariffs for the transportation of energy imposed by the regulator (€ 21 million) and the absence of revenue from Liandyn B.V. (€ 33 million), which is no longer included in the consolidation. These falls were partially offset by higher revenue in other areas. Significant items in this regard concern the income from the service provided to TenneT connected with investments in HV-grids, which, because of the sale of these grids to TenneT in 2009, is now recognised as revenue instead of being capitalised plus the revenue of the new subsidiary Stam & Co with effect from 16 March 2010 (€ 7 million).

Other income

Other income in the first half of 2010 came in at € 51 million (H1/2009: € 241 million). The drop of € 190 million is largely explained by the book profit of € 168 million (before tax) on the sale of the HV grids to TenneT recognised in H1/2009 plus lower income from Nuon Energy (€ 34 million) for services provided by corporate staff departments and service units following the legal unbundling of Nuon Energy on 30 June 2009, partially offset by an increase in sundry other income (€ 12 million).

Operating expenses

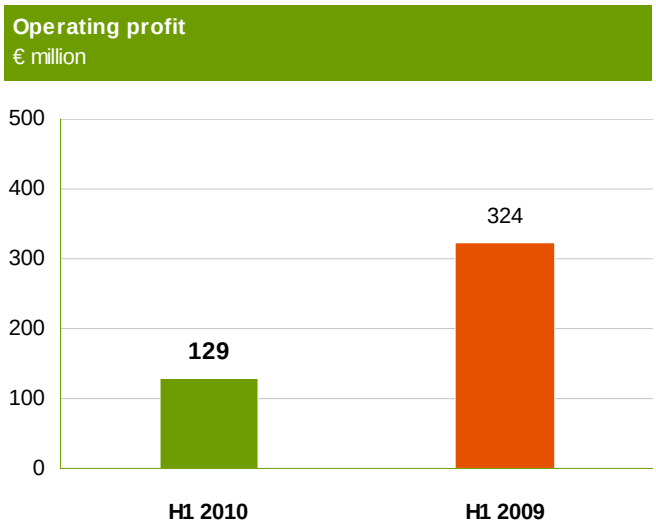


The total operating expenses (purchase costs, costs of subcontracted work and operating expenses, depreciation/ amortisation charges and capitalised production) were down by € 36 million compared with H1/2009, at € 601 million. This decrease is partly accounted for by the previously mentioned reduction in the level of services provided to Nuon Energy (€ 34 million) but also by the absence of costs recognised by Liandyn B.V. (€ 25 million) following the deconsolidation of that company. Other explanations for the lower operating expenses include savings on overheads achieved in 2010 (€ 12 million) and the absence of the non-recurring cost of staff bonuses in connection with the unbundling recognised in H1/2009 (€ 23 million). The above reductions in expenses were partly wiped out by higher procurement costs from TenneT following the sale of the HV-grids to TenneT and the normal increases in the rates charged for transportation services purchased.

There were also incidental expenses of € 19 million relating to the currency effect on the cross-border lease position as well as additional operating expenses reported by Stam & Co with effect from 16 March 2010, plus miscellaneous other expenses (€ 6 million).

The reduction of € 14 million in employee benefits is largely explained by the absence of the staff bonuses of € 23 million recognised in H1/2009. The decrease of € 26 million in costs of temporary staff was mainly the effect of the active policy of running down the number of temporary staff or replacing them with permanent staff. This process contributed to the cost savings achieved in the first half of 2010 compared with H1/2009.

Operating profit



The operating profit for the first half of 2010 was down by € 195 million (60%), at € 129 million.

Excluding incidental items, the operating profit for the first half of 2010 was down by just € 29 million compared with the first half of 2009, at € 148 million (H1/2009: € 177 million). This drop was mainly due to the decrease in revenue of € 41 million, as already explained, and the decrease in other income of € 22 million which was the net effect of the lower income from services to Nuon Energy also mentioned above mitigated by an increase in other income. On the other side of the equation, total operating expenses came in € 34 million lower, too. For an explanation of this figure, reference is also made to the above notes, partly because the incidental items in both first-half periods largely cancel each other out (2009: € 23 million in staff bonuses and 2010: € 19 million in currency effects on cross-border lease related position).

Finance income and expense

In the first half of 2010, finance income and expense produced a net expense of € 49 million (H1/2009: € 76 million expense). The difference of € 27 million is largely the effect of the gain of € 19 million on the value of an interest-rate instrument contracted in connection with the Endinet acquisition, completed on 1 July 2010, which has been accounted for in the incidental items. An incidental expense of € 10 million was also recognised in the first half of 2010, representing the effect of changes in the fair value of financial instruments and losses due to currency movements. In H1/2009, an incidental expense of € 16 million was recognised in relation to the non-recurring interest charged by the Tax Administration on tax payments.

The net finance income and expense excluding incidental items and fair value movements in the first half of 2010 was € 58 million (H1/2009: € 61 million).

Results of associates and joint ventures

The share in the results of associates and joint ventures after tax in the first half of 2010 amounted to € 3 million (H1/2009: € 4 million) and is chiefly made up of the share in the profits of the joint ventures Ziut B.V. and N.V. Kema.

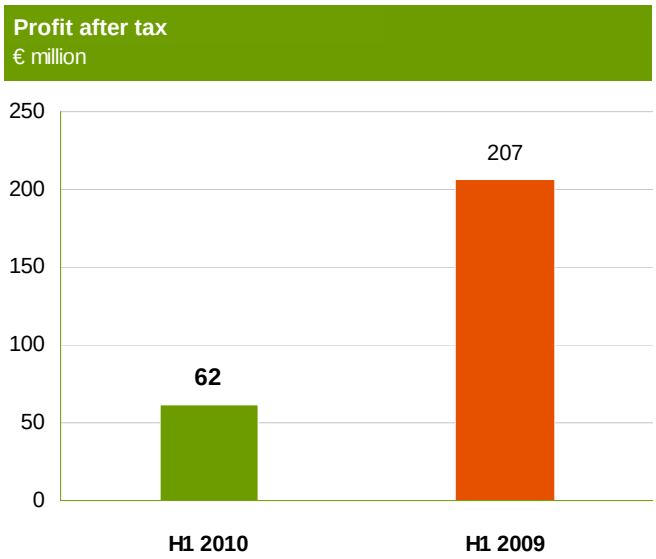
Tax

The effective tax burden (the tax burden expressed as a percentage of profit before tax from continuing operations excluding the share in the results after tax of associates and joint ventures) amounts to 26.3% over the first half of 2010 (H1/2009:18.1%), which is almost the same as the standard rate of taxation. The lower tax burden in H1/2009 was mainly the effect of the release of € 12 million from provisions recognised on the basis of estimates of the corporation tax payable in respect of preceding years. Additionally, a deferred tax asset not recognised at face value was realised in 2009 in connection with the sale of the HV-grids.

Profit after tax

The profit after tax for the first half of 2010 came in at € 62 million compared with € 207 million for the corresponding period in 2009. As already explained, this lower figure is largely accounted for by the book profit in 2009 on the sale of the HV-grids to TenneT (€ 130 million after tax).

The result after tax for the period, excluding incidental items and fair value movements, was € 70 million compared with € 89 million in H1/2009. The decrease of € 19 million, as explained above, was largely due to a combination of lower operating income (€ 63 million), lower operating expenses (€ 34 million) and, as a consequence of this and other factors, lower tax expense.



Consolidated balance sheet as at 30 June 2010

Consolidated balance sheet				
€ million				
Assets				
	30 June 2010		**31 December 2009**	
Non-current assets				
Property, plant and equipment	4,689		4,638	
Intangible assets	217		209	
Investments in associates and joint ventures	49		50	
Financial assets	10		7	
Available-for-sale financial assets	285		240	
Deferred tax assets	451		487	
		5,701		**5,631**
Current assets				
Inventories	22		24	
Trade and other receivables	289		338	
Financial assets	30		301	
Derivatives	19		11	
Cash and cash equivalents	695		451	
		1,055		**1,125**
Total assets		**6,756**		**6,756**
Shareholders' equity and liabilities				
Shareholders' equity				
Share capital	684		684	
Share premium	671		671	
Hedge reserve	-17		-8	
Revaluation reserve	-7		-10	
Other reserves	854		596	
Profit after tax	62		312	
Total equity attributable to shareholders		**2,247**		**2,245**
Long-term liabilities				
Interest-bearing debt	2,148		2,152	
Derivatives	119		105	
Finance lease liabilities	140		120	
Deferred income	1,451		1,436	
Deferred tax liabilities	2		2	
Provisions for employee benefits	60		60	
Other provisions	39		44	
		3,959		**3,919**
Short-term liabilities				
Trade and other payables	108		133	
Tax liabilities	50		76	
Interest-bearing debt	65		73	
Derivatives	21		4	
Provisions for employee benefits	57		52	
Accruals	249		254	
		550		**592**
Total liabilities		**4,509**		**4,511**
Total shareholders' equity and liabilities		**6,756**		**6,756**

Notes to the consolidated balance sheet as at 30 June 2010

General

The following notes explain the significant changes in the balance sheet as at 30 June 2010 relative to the situation as at 31 December 2009.

Non-current assets

The non-current assets increased by € 70 million compared with 31 December 2009. The increase in property, plant and equipment is the effect of a higher level of investment relative to depreciation.

Current assets

The decrease in current assets by € 87 million compared with the position as at 31 December 2009 is largely a consequence of a decrease in trade and other receivables by € 66 million. The latter decrease is in turn largely due to the settlement of the receivables from Nuon Energy and TenneT, coupled with closer attention to outstanding accounts. In addition, time deposit contracts classified under financial assets were not renewed in connection with the funding of the Endinet acquisition and are therefore accounted for as cash instead.

Shareholders' equity

Shareholders' equity as at 30 June 2010 was € 2 million higher than the level at year-end 2009. The increase due to the addition of the profit for the current year was reduced by the dividend paid in May 2010 (€ 54 million) and by changes in other reserves (net decrease of € 6 million).

Long-term liabilities

The long-term liabilities show a slight increase of € 40 million compared with the position as at 31 December 2009. This is mainly due to a higher debt position connected with cross-border leases as a consequence of the movements in the EUR/USD exchange rate. The items concerned are denominated in US dollars.

Short-term liabilities

The short-term liabilities show a net decrease of € 59 million compared with the position as at year-end 2009. This is mainly due to lower trade payables and tax liabilities.

Consolidated cash flow statement for the first half of 2010

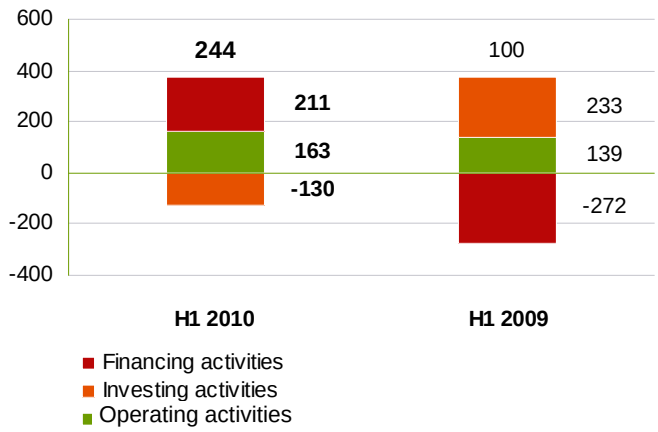
Consolidated cash flow statement (pro forma)				
€ milion				
	1st half			
	2010		2009 *	
Cash flow from operating activities				
Profit after tax		**62**		**207**
Adjustments for:				
Finance income and expense		**49**		**76**
Tax		**21**		**45**
Profit after tax from associates and joint ventures		**-3**		**-4**
Depreciation and impairment less amortisation		**90**		**87**
Changes in working capital:				
- Inventories	2		1	
- Trade and other receivables	48		-58	
- Trade and other payables and accruals	-50		31	
Total changes in working capital		**-**		**-26**
Changes in deferred tax, provisions, derivatives and other		**32**		**-153**
Cash flow from operations		**251**		**232**
Net interest paid and received	-61		-76	
Dividends received from associates and joint ventures	5		-	
Corporate income tax paid	-32		-17	
Total		**-88**		**-93**
Cash flow from operating activities		**163**		**139**
Cash flow from investing activities				
Capital expenditure on property, plant and equipment	-157		-186	
Construction contributions received	36		51	
Investment in non-current financial assets	-9		-	
Proceeds from assets held for sale	-		368	
Cash flow from investing activities		**-130**		**233**
Cash flow from financing activities				
Repayment of current account with Nuon Energy	-		-1,499	
New/repaid other current interest-bearing liabilities and current part of long-term debt	50		89	
New long-term debt	3		1,250	
Repaid long-term debt	-58		-5	
New/repaid current loans granted	270		-368	
Capital contribuition	-		400	
Dividend paid	-54		-139	
Cash flow from financing activities		**211**		**-272**
Net cash flow		**244**		**100**
Cash and cash equivalents as at 1 January		**451**		**237**
Net cash flow		**244**		**100**
Cash and cash equivalents as at 30 June		**695**		**337**

* Pro forma and adjusted for comparison purposes

Notes to the consolidated cash flow statement for the first half of 2010

Cash flow statement

Net cash flow
€ million



The cash flow from operating activities in the first half of 2010 was € 163 million (H1/2009: € 139 million). The increase of € 24 million is principally the effect of net lower finance income and expense (€ 27 million), a deterioration in the working capital position in 2009 compared with no change in this position in the first half of 2010 (€ 26 million) and a lower profit after tax for the reporting period.

The cash flow from investing activities in the first half of 2010 was € 130 million (outflow) compared with an inflow of € 233 million in the corresponding period of 2009. The decrease of € 363 million is almost entirely explained by the proceeds from the sale of the HV-grids to TenneT in H1/2009 (€ 368 million). In addition, Alliander acquired the contractor Stam & Co for € 11 million in 2010.

The cash flow from financing activities for the first half of 2010 was a cash inflow of € 211 million compared with a cash outflow in H1/2009 of € 272 million. The difference of € 483 million is due to a change in the cash reserves placed on deposit, amounting to € 638 million. Whereas in H1/2009 these funds were tied up in deposits, in connection with the funding of the Endinet acquisition, the time deposits were converted into unrestricted cash balances in the first half of 2010. The remaining difference in the cash flow from financing activities, amounting to € 155 million, is mainly due to the repayment of the current account with Nuon Energy in 2009, the contracting of new loans as a consequence, the capital contribution of € 400 million from Nuon Energy in 2009 and the dividend payment in 2009, amounting to € 350 million, for which a contribution of € 211 million was received from Nuon Energy.

Free cash flow

The free cash flow for the first half of 2010 amounted to € 33 million compared with € 4 million in H1/2009. The increase was mainly due to the higher cash flow from operating activities explained above.

Reconciliation of free cash flow

€ million

	1st half	
	2010	2009
Cash flow from operating activities	163	139
Investments in non-current assets	-166	-186
Construction contributions received from third parties	36	51
Free cash flow	**33**	**4**

Consolidated statement of changes in equity

Consolidated statement of changes in shareholders' equity

€ million

	Equity attributable to shareholders									
	Share capital	Share premium	Hedge reserve	Currency translation reserve	Revalu-ation reserve	Other reserves	Profit for the period	Sub-total	Minority interest	Total
Shareholders' equity as at 1 January 2009	**684**	**671**	**320**	**-4**	**-13**	**3,845**	**765**	**6,268**	**2**	**6,270**
Unbundling Nuon Energy, 1 January	-	-	-210	-1	-	-3,663	-226	-4,100	-2	-4,102
Movement fair value of cash flow hedges after tax	-	-	-118	-	-	-	-	-118	-	-118
Currency translation differences	-	-	-	5	-	-	-	5	-	5
Revaluation of available-for-sale financial assets	-	-	-	-	3	-	-	3	-	3
Other movements	-	-	-	-	-	-1	-	-1	-	-1
Profit after tax for 2009	-	-	-	-	-	-	538	538	-	538
Comprehensive income for 2009	-	-	-118	5	3	-1	538	427	-	427
Dividend for 2008	-	-	-	-	-	-	-350	-350	-	-350
Profit appropriation for 2008	-	-	-	-	-	415	-415	-	-	-
Shareholders' equity as at 31 December 2009	**684**	**671**	**-8**	**-**	**-10**	**596**	**312**	**2,245**	**-**	**2,245**
Movement fair value of cash flow hedges after tax	-	-	-9	-	-	-	-	-9	-	-9
Revaluation of available-for-sale financial assets	-	-	-	-	3	-	-	3	-	3
Profit after tax for first half of 2010	-	-	-	-	-	-	62	62	-	62
Comprehensive income for first half of 2010	-	-	-9	-	3	-	62	56	-	56
Dividend for 2009	-	-	-	-	-	-	-54	-54	-	-54
Profit appropriation for 2009	-	-	-	-	-	258	-258	-	-	-
Shareholders' equity as at 30 June 2010	**684**	**671**	**-17**	**-**	**-7**	**854**	**62**	**2,247**	**-**	**2,247**

Notes

Changes in hedge reserve and revaluation reserve

The change in the hedge reserve relates to fair value movements on financial instruments qualifying for hedge accounting. The increase in the revaluation reserve concerns the increasing value of the investments classified as available-for-sale financial assets.

Dividend

The dividend relating to the 2009 financial year (€ 54 million) was paid out in May 2010.

Notes on financing, financial ratios and credit rating

Net debt and financing

The net debt at the end of the first half of 2010 amounted to € 1,344 million compared to a net debt of € 1,382 as at 31 December 2009.

Reconciliation net debt position				
€ million	**30 June 2010**		31 December 2009	
Long-term interest-bearing debt	2,148		2,152	
Short-term interest-bearing debt	65		73	
Finance lease liabilities	140		120	
Gross debt		**2,353**		**2,345**
Cash and cash equivalents	695		451	
Non-current financial assets	134		115	
Current financial assets	30		301	
Investments held for lease obligations related to cross-border leases	150		125	
Less: Restricted cash and cash equivalents (notably guarantee deposits relating to collateral)	-		-29	
Total cash and cash equivalents and investments		**1,009**		**963**
Net debt		**1,344**		**1,382**

Financial policy and financial position

Alliander's financial policy is aimed at achieving the right 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 four ratios which are explained in greater detail below.

The FFO / net debt ratio refers to the 12-month profit after tax, adjusted for deferred tax asset movements and incidental items and fair value movements plus depreciation of property, plant and equipment and amortisation of intangible assets divided by the net debt. On 30 June 2010 the ratio amounted to 24.6% (year-end 2009: 25.4%). Alliander's financial policy stipulates that this ratio should be a minimum of 20%.

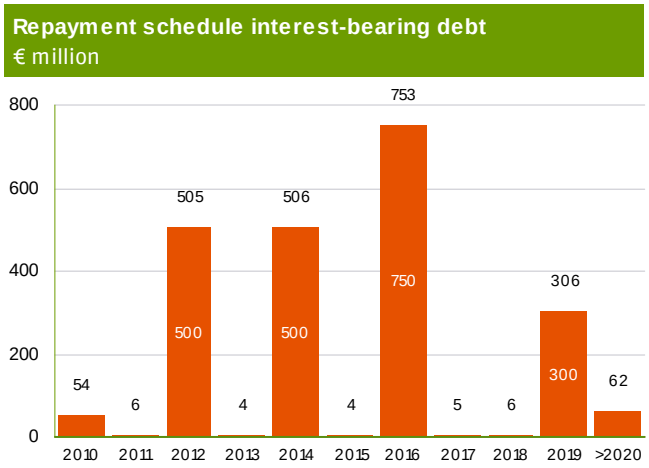
The interest cover ratio concerns the 12-month profit after tax adjusted for deferred tax asset movements and incidental items and fair value movements plus depreciation of property, plant and equipment and amortisation of intangible assets, plus net finance income and expense divided by net finance income and expense adjusted for incidental items and fair value movements. On 30 June 2010 this ratio came out at 4.4 (year-end 2009: 3.7). 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 shareholders' equity as at 30 June 2010 amounted to 37.4% (year-end 2009: 38.7%). Alliander's financial policy stipulates that this ratio should not exceed 60%.

The solvency ratio, i.e. shareholders' equity including the profit for the period divided by the balance sheet total less deferred income, as at 30 June 2010 amounted to 42.4% (year-end 2009: 41.6%). Alliander's financial policy stipulates that this ratio should be a minimum of 30%.

General principles of the financial policy are to ensure a balanced repayment schedule, to have available sufficient cash and cash equivalents and committed credit facilities and to maintain a solid A rating profile.

Repayment schedule for interest-bearing debt



Credit facilities

Early in 2010, Alliander replaced the committed revolving credit facility (RCF) of € 875 million (expiring in November 2011) with a new RCF totalling € 600 million and running up to March 2015. In addition, Alliander has an ECP programme of € 1.5 billion, of which € 50 million was issued as at 30 June 2010 (30 June 2009: nil) and an EMTN programme of € 3 billion, of which € 2.05 billion was issued as at 30 June 2010 (30 June 2009: € 2.05 billion).

Credit rating

On 11 March 2010, Moody's revised the long-term rating of Alliander N.V. and Alliander Finance B.V. upward from A2 to Aa3. The short-term rating of Prime-1 was reaffirmed. The outlook for all ratings remains stable. The rise reflects Moody's expectation that the willingness of the shareholders to provide support in exceptional circumstances has increased because Alliander has become a pure network company as a consequence of the unbundling.

On 6 August 2010, after taking account of the acquisition of Endinet B.V., Standard & Poor's reaffirmed the existing long-term and short-term ratings.

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

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

Additional explanatory notes

Accounting policies

The figures for the first half of 2010 have been prepared in accordance with IAS 34, except for:

- IFRS 3 with respect to the acquisition of Stam & Co and
- IFRS 8 concerning segmentation.

The comparative figures for H1/2009 in the income and cash flow statements are pro forma.

This report uses the same accounting policies as for the 2009 annual report of Alliander N.V., which can be found at www.alliander.com. This report does not contain all the information required by IFRS for interim financial reporting. To obtain a complete picture, it should therefore be read in conjunction with the 2009 annual report of Alliander N.V., published in April 2010.

Cross-border lease contracts

In the period 1998-2000, subsidiaries of Alliander N.V. entered into US cross-border leases for grids, including LILO (lease-in lease-out) and SILO (sale-in lease-out) transactions. The transactions currently remaining relate to the gas grids in Friesland, Gelderland, Flevoland, Noord-Holland, Zuid-Holland and Utrecht, the district heating grids in Almere and Duiven/Westervoort and the electricity grid in the Randmeren region. For five of these contracts, Alliander N.V. acts as direct guarantor in its capacity as party to the agreement. In addition, Alliander has issued declarations of joint and several liability pursuant to Section 403, Book 2, of the Netherlands Civil Code for the subsidiaries involved. The grids in question have been leased for a long-term period to U.S. parties (head lease) which, in turn, have subleased the assets to the relevant subsidiaries. At the end of the sublease there is the option of purchasing the rights of the American counterparty under the head lease and thus ending the transaction. The terms agreed for the subleases expire between 2015 and 2028. The income from the cross-border leases was 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 connection with the obligations entered into, parts of the grids have been mortgaged and pledged.

The total carrying amount of the assets forming the object of cross-border leases, as at 30 June 2010, amounted to € 1.0 billion (year-end 2009: € 1.0 billion). At the end of June 2010, a total of $ 3.5 billion (year-end 2009: $ 3.6 billion) was held on deposit with several financial institutions or invested in securities in connection with these transactions. Since no powers of disposal exist over the majority of these financial assets and associated liabilities, they are not regarded as assets and liabilities of Alliander and the respective amounts are not recognised in Alliander's consolidated financial statements. 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 2010, 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 $ 583 million (year-end 2009: $ 640 million). To cover the equity part of the strip risk, amounting to $ 407 million at the end of June 2010 (year-end 2009: $ 467 million), Alliander has provided the investors involved with security in the form of letters of credit for an amount of $ 170 million (year-end 2009: $ 213 million) in various transactions. The number and size of the letters of credit to be issued depends partly on Alliander's credit rating. In the context of some of the letter-of-credit facilities, a pledge in favour of the banks concerned has been established on the cash deposits held at those banks, to a total amount of $ 42 million as at year-end 2009. These cash deposits no longer existed as at the end of June 2010.

At the end of 2009, agreement was reached with the American investor concerned regarding the premature cancellation of two trusts relating to the cross-border lease transaction which was entered into in 1999 in respect of the gas grid in the Apeldoorn region. The actual closing of the transaction was effected on 26 January 2010. The financial impact on results had already been accounted for in the 2009 figures.

Review report

Review report

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

Introduction

We have reviewed the consolidated interim financial information for the six-month period ended 30 June 2010, of Alliander N.V., Arnhem as set out on pages 10 to 21, which comprises the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement and the consolidated statement of changes in equity for the six-month period then ended and the selected explanatory notes. The management Board of the company is responsible for the preparation and presentation of this consolidated interim financial information in accordance with the accounting policies as set out in the additional explanatory notes. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope

We conducted our review in accordance with Dutch law including standard 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, 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 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 accompanying consolidated interim financial information for the six-month period ended 30 June 2010 is not prepared, in all material respects, in accordance with the accounting policies as set out in the additional explanatory notes.

Rotterdam, 27 August 2010
PricewaterhouseCoopers Accountants N.V.

Original signed by:
J.A.M. Stael

Appendix

Consolidated income statement in accordance with IFRS

Presented below is the income statement of Alliander showing the unbundling of Nuon Energy in strict accordance with IFRS, which requires recognition of the transaction as at the date of transfer of control (30 June 2009). This means that the result of Nuon Energy for the period 1 January to 30 June 2009 is recognised as profit from discontinued operations.

The financial unbundling of Nuon Energy from n.v. Nuon in fact took place with retroactive effect from 1 January 2009; for this reason, the results of Nuon Energy are no longer recognised in the financial statements of Alliander.

Consolidated income statement

€ million

	1st half			
	2010		2009	
Revenue	**679**		**720**	
Other income	51		241	
Total income		**730**		**961**
Purchase costs and costs of subcontracted work	207		183	
Employee compensation and benefit expenses	177		191	
External personnel expenses	56		82	
Other operating expenses	105		125	
Total purchase costs, costs of subcontracted work and operating expenses	545		581	
Depreciation and impairment of property, plant and equipment	110		106	
Less: Own work capitalised	-54		-50	
Total operating expenses		601		637
Operating profit (EBIT)		**129**		**324**
Finance income and expense		-49		-76
Share in results of associates and joint ventures after tax		3		4
Profit before tax from continuing operations		**83**		**252**
Tax		21		45
Profit after tax from continuing operations		62		207
Profit after tax from discontinued operations		-		226
Profit after tax		**62**		**433**
Earnings per share (€)		0.45		3.17

Consolidated income statement excluding incidental items and fair value movements

The consolidated income statement below is presented excluding the incidental items and fair value movements detailed on page 11.

Consolidated income statement excluding incidental items and fair value movements

€ million

	1st half			
	2010		2009 *	
Revenue	**679**		**720**	
Other income	51		73	
Total income		**730**		**793**
Purchase costs and costs of subcontracted work	207		183	
Employee compensation and benefit expenses	177		168	
External personnel expenses	56		82	
Other operating expenses	86		127	
Total purchase costs, costs of subcontracted work and operating expenses	526		560	
Depreciation and impairment of property, plant and equipment	110		106	
Less: Own work capitalised	-54		-50	
Total operating expenses		582		616
Operating profit (EBIT)		**148**		**177**
Finance income and expense		-58		-61
Share in results of associates and joint ventures after tax		3		4
Profit before tax from continuing operations		**93**		**120**
Tax		23		31
Profit after tax from continuing operations		70		89
Profit after tax from discontinued operations		-		-
Profit after tax		**70**		**89**

* The comparative figures are pro forma.

Colophon

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