

# Alliander N.V. Half-Year Report 2016

27 July 2016



allliander

## Disclaimer

This report is a translation of the Dutch half-year report 2016 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 2016 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. Alliander N.V. holds the entire share capital of Liander N.V., Liandon B.V., Allego B.V., Alliander Duurzame Gebiedsontwikkeling B.V., Kenter B.V. and Alliander AG among other entities. Liander refers to network operator Liander N.V. and its subsidiaries. In this report, Liandon refers to Liandon B.V.

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 2015 financial statements of Alliander N.V., which can be found on [www.alliander.com](http://www.alliander.com).

This report has not been audited.

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# Profile

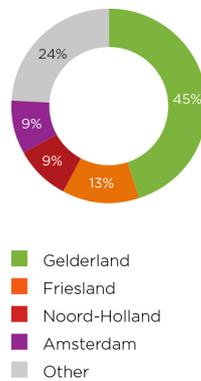
Alliander is a network company. We secure reliable, affordable and accessible energy distribution in a large part of the Netherlands. The shares are owned by municipalities and provinces.

Alliander consists of a group of companies, among them Liander, Liandon, Allego, Kenter and Alliander Duurzame Gebiedsontwikkeling (DGO). Together we stand for high-quality knowledge of energy networks, energy technology and technical innovations. Network operation is our core activity. Network operator Liander keeps the energy infrastructure in good condition to ensure distribution of gas and electricity to millions of consumers and businesses every day. Liandon focuses on the development of sustainable technologies and intelligent energy infrastructures.

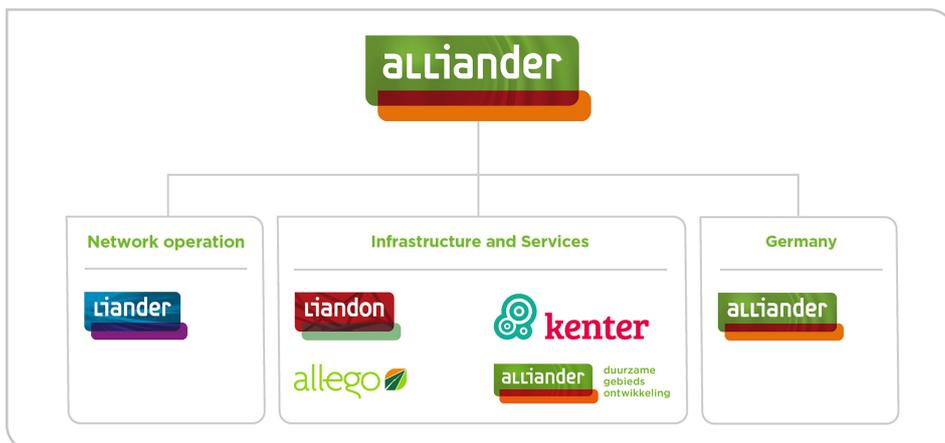
## Service area



## Shareholders



We work for a reliable energy supply to make living, working and travelling possible, now and in the future. Consequently, Alliander explores and develops new business activities to contribute to the development of the new energy system. Allego, for instance, is developing customised charging solutions and infrastructure for municipalities, businesses and transport companies. Metering company Kenter is delivering innovative solutions for metering energy and energy management. DGO's objective is to create open networks for transport and distribution of sustainable and local energy.



# Mission and strategy

## Mission

We stand for an energy system where everyone has equal access to reliable, affordable and renewable energy.

## Our strategy

We foresee the emergence of a fundamentally different energy system. Alliander is responding to these challenges with a clear strategy. Alliander ensures that customers can make the right energy choices: for themselves and for the energy system as a whole. So that everyone has equal access to reliable, affordable and renewable energy.

### Alliander opts for:



#### Supporting customers in making choices

Customers are gaining more and more influence over the energy system and so we make it attractive for them to make choices that not only work out well for them, but also for our energy system as a whole.



#### New open networks

The aim of an energy supply at the lowest social cost requires us to develop new infrastructures such as heating networks and make them equally accessible to everyone.



#### Digitisation

Our existing electricity and gas networks are not set up for the future changes in our energy supply. We have opted for digitisation to make our existing networks ready for the future.



#### Excellent network management is the basis

Our energy networks are among the most reliable in the world. We keep the current networks affordable through efficient management and economies of scale. We also want to further increase the comfort our customers experience when we are carrying out work on their behalf.



# Objectives and results

## Safety

Objectives	Results 30 June 2016	Objectives ultimo 2016	Results 31 December 2015
LTIF (lost time injury frequency) <sup>1</sup>	 2.1	An LTIF of 2.1 or lower	2.1
Safety Culture <sup>2</sup>	 39%	At least 30%	38%

## Customers

Objectives	Results 30 June 2016	Objectives ultimo 2016	Results 31 December 2015
Customer satisfaction <sup>3</sup>	Consumer market  96% against benchmark	Outperform benchmark	Consumer market 103% against benchmark
	Business market  95% against benchmark	Outperform benchmark	Business market 95% against benchmark
Electricity outage duration (in minutes) <sup>4</sup>	 23.4	Maximum of 21	21.9
Postcode areas with more than five interruptions per year <sup>1</sup>	 19	Maximum of 16	10
Top risk-reducing projects <sup>5</sup>	 68%	At least 90%	100%
Offer smart meter <sup>6</sup>	 201,000 addresses	Minimum of 424,000 addresses	191,000 addresses
Digitisation programmes <sup>7</sup>	 3%	At least 95%	64%

## Employees

Objectives	Results 30 June 2016	Objectives ultimo 2016	Results 31 December 2015
Employee survey score <sup>8</sup>	 n/a	At least 75	73
Employee absenteeism <sup>1</sup>	 3.8	Maximum 3.9%	3.8
Women in leadership positions	 26.2	At least 26%	25.6
People at a distance from the labour market <sup>9</sup>	 75	At least 100	103

## Shareholders and investors

Objectives	Results 30 June 2016	Objectives ultimo 2016	Results 31 December 2015
Retention of solid rating	 S&P: AA-/A-1+/stable outlook Moody's: Aa2/P-1/stable outlook	Maintain solid A rating profile	S&P: AA-/A-1+/stable outlook Moody's: Aa2/P-1/stable outlook
<b>Financial policy</b> <sup>9</sup>			
FFO/net debt	30%	> 20%	28%
Interest cover	7.8	> 3.5	7.6
Net debt / (net debt + equity)	31%	< 60%	34%
Solvency	60%	> 30%	56%
<b>Sustainability</b>			
Socially responsible procurement <sup>11</sup>	 61%	At least 68%	66%
CO <sub>2</sub> emissions from business operations <sup>12</sup>	 348 ktonnes	Maximum 748 ktonnes	801 ktonnes

1 The figure is a 12-month moving average.

2 The level of the safety culture at Alliander is measured from the position on the safety proficiency level. The score and objective for 2016 is based on how many employees have achieved a safety proficiency level of at least 3. The year-end 2015 figure has been restated for comparison purposes.

3 Customer satisfaction is a measure of the relative satisfaction rating for customers in both the consumer and business markets compared with other network operators; calculated by an external agency several times a year using random surveys.

4 The outage duration expresses the average time in minutes during which our customers in the area served by Liander are without electricity in a 12-month period. The outage durations for 2015 and 2016 are based on low, medium and high voltages.

5 The objective measures achievement of predefined milestones for the 25 main programmes or projects that mitigate a significant risk. The definition of the objective has been changed compared with 2015 and now focuses on intermediate milestones and not only on the final handover of a project.

6 The objective for 2016 (424,000 addresses) is different from the objective set out in the 2015 annual report and year plan 2016 (447,000 addresses) as a result of the planning for offering smart meters being finalised after publication of the annual report and the year plan.

7 This is an objective for a whole year that is assessed at the end of the calendar year. The target consists of two components: public lighting which will be executed later this year and digitisation of sub-stations. For the most part the realisation of this last category will be transferred to 2017.

8 The score is measured once a year and will be available in the second half of 2016.

9 Alliander supports people whose personal circumstances make it more difficult for them to find work. The 2016 figure is for six months; the 2015 figure is for 12 months.

10 The financial framework within which Alliander operates is based on the four ratios presented in the key figures. These ratios are calculated according to the principles of our financial policy. These principles differ in two respects from the classification according to IFRS: 1. 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. 2. In calculating the ratios for year-end 2015, no account was taken of the 'held for sale' classification (IFRS 5) in the case of Endinet Group. The funds from operations (FFO)/net debt ratio is the 12-month profit after tax adjusted for deferred tax movements and incidental items and fair value movements plus depreciation of property, plant and equipment and amortisation of intangible assets and accrued income, as a percentage of net debt. The interest cover ratio concerns the 12-month profit after tax, adjusted for the movements in the deferred tax assets and liabilities, incidental items and fair value movements, plus depreciation of property, plant and equipment and amortisation of intangible assets and the net amount of finance income and expense, divided by net finance income and expense adjusted for incidental items and fair value movements. The solvency ratio is 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.

11 The Socially Responsible Procurement (SRP) percentage is the proportion of Alliander's spending that meets the SRP criteria.

12 The objective for CO<sub>2</sub> emissions for 2016 has been recalculated according to the most recent emission factors. As these factors were not known when the 2015 annual report and year plan 2016 were published the 2016 objective (748 ktonnes) is different from the 2016 objectives previously published in the annual report and the year plan (702 ktonnes).

## Financial key figures

€ million, unless stated otherwise	2016	1 <sup>st</sup> half <sup>a</sup>	2015
Revenue		783	777
Other income		65	45
Operating expenses		740	593
Operating profit		108	229
Profit after tax		232	161
Profit after tax excluding incidental items and fair value movements		64	116
Investments in property, plant and equipment		304	261
Cash flow from operating activities		106	241
	<b>30 June 2016</b>		<b>31 December 2015</b>
Total assets		7,562	7,726
Total equity		3,837	3,687
Net debt <sup>2</sup>		1,608	1,735
ROIC <sup>3</sup>		3.9%	6.3%

1 2016: including AEF, excluding Endinet

2015: excluding AEF and Endinet (except for the profit after tax)

See page 16 for the notes

2 Net debt is defined as interest-bearing debt less cash and cash equivalents and investments that are not restricted.

3 The 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).

# Report of the Management Board

## Working safely on our future energy supply

In the first half of 2016, Alliander recorded a profit after tax of €232 million. We are also seeing the first results of the strategy we have put in place. Our activities and efforts during the first half of the year were, however, overshadowed by the fatal accident with one of our employees at a high-voltage sub-station.

Work on the energy supply involves risks. In the morning of Friday, 26 February, we received the terrible news that one of our colleagues from Liandon had died working on high-voltage equipment in one of our sub-stations. Everyone at the company was deeply affected by this. The investigations into the accident and how it happened are continuing. Naturally we want to investigate and discover the exact circumstances so that such an event can never happen again. Our safety objective remains that everyone returns home safely.

The importance of safety also applies to our immediate surroundings. At the end of June, we saw a gas explosion that destroyed several houses in Urk after work on the sewers affected a gas main. This serious incident is also currently being investigated.

## On route to a different energy system

The energy system is changing. 24/7 power plants are making way for solar panels and wind turbines that only generate energy when the sun shines or the wind blows. To heat our homes and power our cars, we are switching over from gas and oil to electricity and residual heating. Customers are increasingly generating their own energy, both for self-consumption and to exchange. New types of networks are coming to the fore but may not be accessible to everyone. And we may be confronted with 'network defectors': customers who become self-sufficient and cancel their connection to the energy network - initially for gas, and later also for electricity.

These developments have an impact on the essence of Alliander's existence: reliable, affordable and accessible energy distribution. Our strategy identifies four pillars for finding suitable answers to these issues. We support customers in making choices that work for them as well as for the energy system as a whole. We are investing in alternative open infrastructures and digitising our networks. Finally, we are committed to excellent network management as the basis of our operations.

In the first half of 2016, we worked hard on implementing our strategy and achieved various results.

### 1. **Supporting customers' choices**

Customers are gaining more and more influence over the energy system. The challenge is to facilitate this decentralisation process while minimising the total costs for everyone. For instance, we are seeing that a rapidly increasing number of customers are purchasing solar panels, wind turbines or biogas installations to produce their own energy. In the first half of 2016, the number of customers delivering energy to the electricity grid rose by 15% to 127,000 (year-end 2015: 110,000).

### 2. **Working on new, open infrastructures**

Building alternative infrastructures can be a way of avoiding expensive investments in the existing network. In June, DGO and Ennatuurlijk took over the heating network of the municipality of

Hengelo. Residual industrial heat from AkzoNobel is transported through the heating network to businesses and homes. The heating network currently consists of separate, small networks. After the summer, DGO will start construction of a backbone that links these networks.

In addition, over the next few years the new Lelystad Airport Businesspark industrial estate will acquire the first public direct current network in the world. Businesses on the estate will have a 'traditional' alternating current connection and a direct current connection. Direct current can create savings of up to 10% in energy.

### 3. **Digitisation of the networks**

Advancing ICT is rapidly unlocking new digital opportunities for managing our networks. Thanks to the installation of smart meters, sensors, remote-controllable switches and a telecom network, we can quickly detect and even prevent faults, make more targeted investments in the networks and offer customers the data they need to make easier energy choices. One crucial link in our efforts to create smart networks is the smart meter. In the coming five years, all our customers will be offered this new meter. The smart meter helps customers use energy when prices are low. Or to feed energy into the grid when the electricity price is high. In the first half of 2016, we offered smart meters to 201,000 addresses (objective for the full year 2016: 424,000).

Also, the wireless CDMA data communications network was officially commissioned in May. This network offers optimum cover and data capacity for smart meters and smart grid applications and is also suited to other utilities infrastructures. At the moment, energy network operators Liander, Stedin and Westland Infra are using this network, which is owned by a joint subsidiary of Alliander and Stedin.

### 4. **Excellent network management**

Customers want a reliable and safe infrastructure. We are investing heavily to continue guaranteeing the robustness of our network. In the first half of 2016, we spent €371 million on the maintenance, replacement and construction of our energy infrastructure (first half of 2015: €333 million). Our year plan 2016 sets out where we will be working on our infrastructure in the regions. An uninterrupted power supply is very important to our customers. Our staff work constantly to ensure a reliable and safe network. On average, our customers were without electricity for 23.4 minutes in the first half of 2016. This is higher than in the first half of 2015 (20.5 minutes). The main outage was in Amsterdam Zuidoost and Diemen, where 25,000 customers were without electricity for a large part of an evening and night following the failure of a sub-station of the national network operator TenneT and Liander.

## Other developments

On 1 May 2016, Kenter became an autonomous part of Alliander. Kenter had previously been the metering company of Liander. Kenter offers businesses 24/7 insight into the amount of energy they are using, where, when and for what. The company installs meters, delivers reliable metering data and online statements with consumption analyses to large business customers.

The regulator ACM issued a further ruling on an enforcement request regarding some of Alliander's new activities: Hoom, Exe and MPARE. The ACM concluded that these activities meet the legal frameworks and contribute to the management of energy networks. Consequently they contribute to the core duty of an increasingly sustainable energy supply with a reliable, affordable and accessible network. ACM had previously also established Allego's activities complied with the legal framework.

These new activities assist in reducing capital expenditure on the capacity of the networks. For example, Hoom focuses on energy saving by households and this can reduce the load on the network. MPARE offers new services such as software and platforms that assist consumers and businesses retain control over their own data.

## Corporate Social Responsibility

In addition to our contribution to facilitating the transition to a more sustainable energy system for our customers, Alliander is also working on corporate social responsibility. The business's CO<sub>2</sub> emissions in the first half of 2016 were 348 ktonnes (first half of 2015: 393 ktonnes). The reduction came in part as a result of our efforts to 'green' our network losses through generating additional sustainable energy in the Netherlands. We are striving for climate-neutral operations by 2023.

This year we also celebrated ten years of the Alliander Foundation. Alliander encourages employees to work for society. In the past year, over 900 colleagues have taken part in volunteer projects of the Alliander Foundation.

## Green bond loan

In April, Alliander issued a new €300 million bond loan at coupon rate of 0.875% with a term of 10 years. This was the first time that Alliander has issued a green bond: one that has to be used for sustainable capital expenditure. The proceeds from this green bond are being used in particular to refinance investment in smart meters and the sustainable renovation of the offices in Duiven.

## Asset swap

The transaction under which the Enexis networks in Friesland and the Noordoostpolder were purchased from Enexis and at the same time the networks in the Eindhoven and Zuidoost-Brabant region (Endinet Groep B.V) were sold to Enexis was realised on 1 January 2016. This transaction involved 51,000 electricity and 196,000 gas connections in Friesland and 28,000 electricity and 27,000 gas connection in the Noordoostpolder. The sale of Endinet involved 108,000 electricity and 398,000 gas connections. The networks in Friesland and Noordoostpolder are in the middle of Liander's service area allowing more efficient operations. The acquisition is also entirely in line with the strategy of having a single network operator for both electricity and gas in any one area or region. The book profit on the sale of Endinet was €176 million. See page 29 of this half-year report for further notes on this transaction.

## Investments, maintenance and innovation in the networks

Securing the quality, safety and capacity of the electricity and gas distribution networks, both now and for the future, is a fundamental responsibility of our network operator, Liander. Investment in maintenance and replacement of the energy networks is essential, both to preserve the existing quality and safety standards and to distribute the growing renewable energy streams.

Capital expenditure on the network and meters was €254 million in the first half of 2016 (2015: €212 million). Much of the increase was a result of the large-scale offering of smart meters, leading to an increase of €27 million in metering devices to €53 million. In the first half of 2016, smart meters were installed at 201,000 customers. This is 124,000 more than in the first half of 2015 (77,000). The wide-scale roll-out of smart meters area by area began in 2015 and is now picking up.

Capital expenditure on network replacement in the first half of 2016 was €85 million (2015: €82 million), while €109 million (2015: €92 million) was invested in network expansion. At €117 million, repair and maintenance costs in the first half of 2016 were little changed from the first half of 2015 (€121 million).

## Investments, maintenance and innovation in the networks

€ million	Realised until June 2016	Realised until June 2015	Target at year-end 2016	Realised 2015
Electricity				
Expansion	91	75	195	170
Replacement	44	35	86	79
Gas				
Expansion	18	17	35	41
Replacement	41	47	126	101
Metering devices	53	26	112	62
Other network	7	12	28	34
<b>Total investments</b>	<b>254</b>	<b>212</b>	<b>582</b>	<b>487</b>
Maintenance costs	117	121	235	238
<b>Total maintenance costs and network investments</b>	<b>371</b>	<b>333</b>	<b>817</b>	<b>725</b>
Number of addresses smart meters offered	201,000	77,000	424,000	191,000

We will continue to work on the energy supply of the future. This is urgent given the challenges in the Paris Climate Agreement. There are huge and profound social challenges in many areas to limit global warming. With over 7,000 employees, we are moving ahead on our path towards a reliable, affordable and sustainable energy supply.

## Risk Management

Alliander wants to achieve its objectives in a responsible way and so comply with legislation and regulation. Identifying, assessing and managing risks and being transparent about them helps the entire organisation and allows Alliander to make adjustments and improve. Consequently, we manage risks proactively throughout the year and, if necessary and desirable, take measures to mitigate risks. Further information on risk management can be found in the Corporate Governance section of the 2015 annual report.

We make a distinction between the internal risks we run as a result of our own actions and external risks that stem from developments in the world around us. The main risks are discussed frequently with the Management Board and on a quarterly basis with the Supervisory Board. The possible impact on our strategic objectives and the probability of their occurrence determine what we recognise as our main risks.

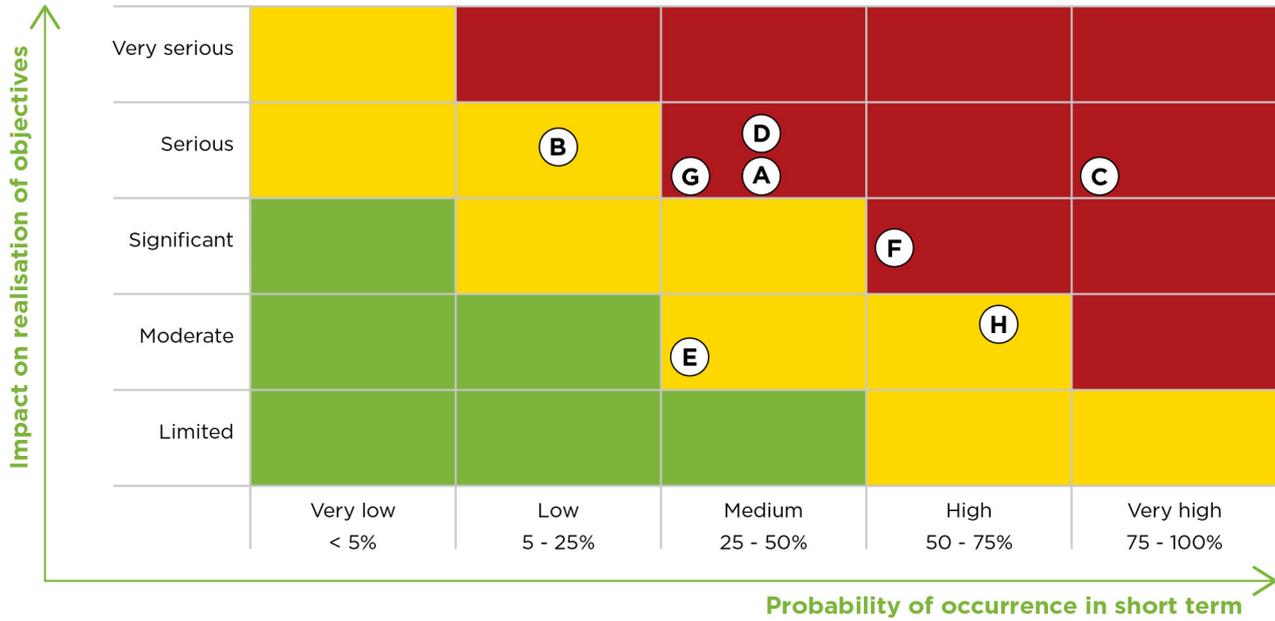
## Overview of main risks

### Internal

- A** Inadequate anticipation of the impact of the energy transition
- B** Data quality
- C** Feasibility of meter replacement volume

### External

- D** Increasing land-use planning complexity
- E** Cyber crime
- F** Changing legislation and regulations
- G** Sufferance tax
- H** Gas interruptions due to water mains breakages



The arrows show the expected trend in each risk in the coming period: upwards (increasing risk), flat or downwards (decreasing risk).

## Internal risks

### ↓ A. Inadequate anticipation of the impact of the energy transition

What is the risk?

The energy market is undergoing rapid transformation. We see diverse trends that impact network operator. Timely anticipation of the impact of these developments is important to continue meeting the demand for energy. The most important consequences of this risk are mandatory disposals and the failure to meet customer needs in time.

How is it managed?

Alliander is actively securing the required knowledge. We are engaging in a dialogue with our most important partners and are increasingly successful in discussing high-impact projects at an early stage. We also explore ways of optimally facilitating the behaviour and distribution of energy users. Data-driven network management is a significant strategic pillar for this.

### ↓ B. Data quality

What is the risk?

We record various types of information. This is aimed at the continued assurance of the quality and availability of our networks. If the quality and integrity of our network data and the address, meter and contract data of our customers are insufficiently assured, the reliability of our services may be compromised and our operating expenses may become too high.

How is it managed?

Recently Liander has been working on further digitising its source data (including by vectorisation), applying comprehensive standardisation and uniformity.

### ↑ C. Feasibility of meter replacement volume

#### What is the risk?

This year there will be a further upscaling of volume in the large-scale offering of smart meters (GSA). This upscaling period coincides with the launch of a new type of meter, the introduction of a new network to enable communication with smart meters and an intensification of the cooperation with the new contractors who have been engaged for the GSA. If this project is not expertly managed, we may not be able to offer all households within Liander's service area a smart meter by the 2020 deadline.

#### How is it managed?

Liander is working on forming stocks of different types of meters and flexibility in capacity arrangement with suppliers. In addition, back-up plans and disaster recovery procedures have been devised to deal effectively with unforeseen events (business continuity management).

## External risks

### → D. Increasing spatial planning complexity

#### What is the risk?

Liander is increasingly often faced with greater complexity in finding routes and sites for infrastructure and this involves high cost. The space available in densely populated areas is limited, both above and below ground. Moreover, requirements regarding visibility of above-ground infrastructure and proximity to residential areas are being tightened.

#### How is it managed?

The risk is managed by setting up a professional organisation with a specific focus on the planological aspects in managing our assets. In addition, we hold proactive talks with local residents, municipalities and provinces.

### → E. Cyber crime

#### What is the risk?

Cyber crime may make significant parts of the network unmanageable. In addition, viruses can enter our systems through employees' computers. Cyber security is also a key issue because of the ongoing digitisation of our energy networks and above-ground assets.

#### How is it managed?

We secure our networks and computers against attacks. We also work intensively within the Association of Energy Network Operators in the Netherlands (Netbeheer Nederland), and Alliander also maintains close contacts with the central government's National Cyber Security Centre. Alliander has close contacts with other parties so that together we can monitor the nature and speed of developments and pick up external signals of attacks at an early stage.

### ↓ F. Changing legislation and regulations

#### What is the risk?

We sometimes have to adjust our ambitions and operations to regulatory developments when the law and regulations change as most of our activities are regulated. This concerns the electricity and gas connection and transport services and the metering services for small consumers. New legislation (STROOM) was rejected by the Dutch Senate at the end of December 2015. A new Bill (Wetsvoorstel Voortgang Energietransitie) will be laid before the Dutch House of Representatives after the consultation stage in September 2016.

#### How is it managed?

We engage in a proactive dialogue with the government about legislative and regulatory developments relating to network operation and give our views on proposed changes. Our specialists make scenario calculations and assess the possible impact on the performance of our tasks. In addition, we are working to improve the regulatory awareness within the organisation.

## ↓ G. Sufferance tax

### What is the risk?

The costs of sufferance tax - the municipal levy that Liander is charged for using publicly-owned land - are passed on in the tariffs. These local levies generically increase the tariffs for all customers, even though sufferance tax is only levied by a limited number of municipalities. For this reason, Liander is opposed to sufferance tax.

### How is it managed?

The financial risk of sufferance tax for Liander has been mitigated by an amendment to the regulations. Where necessary, Liander initiates legal proceedings against the levy of sufferance tax. There has been an active lobby for abolition of sufferance tax on utilities for some time. At the end of June, the Minister submitted a Bill to abolish sufferance tax on utilities with a 10-year transition period for municipalities who levy it. This will be debated by the Dutch House of Representatives after the summer.

## → H. Gas interruptions due to burst water mains

### What is the risk?

Since 2014 we have faced several major gas interruptions due to burst water mains nearby. In all cases the interruption was as a result of a combination of breaks in the water and gas mains and the length of the interruption was worsened by the gas network being contaminated with water and sand. Those directly affected receive financial compensation as laid down by law. An additional concern is the increased reputational risk if there is a recurrence of these faults.

### How is it managed?

Together with all water mains companies, we performed a risk-analysis. Among other things mechanics of Vitens had courses on preventing breaks in the gas mains at the site of a burst water main. Liander and Vitens are now working more intensively together at both the local and management level.

## Other matters

### Policy update

In the 2015 annual report, we reported an update of the risk management policy. Part of this was streamlining communication of risks, using, for example, the risk matrix. The changes to this matrix affect how we present our risks in this report. In addition to the frequent reassessment of risks, this has affected the consideration of risks compared with the 2015 annual report.

### Legal proceedings and claims

In January 2014, the Trade and Industry Appeals Tribunal (CBb) ruled on the definition of an electricity connection in a dispute with another network operator. It concluded that certain links were not connections within the meaning of the Electricity Act 1998 and the network operator could not provide services to these parties. The Electricity Act 1998 was amended from 1 January 2014 and these links are now within the legal definition of a connection. The Tribunal's judgment may have consequences for the network operators, including Liander. A number of claims were received by Alliander at the beginning of 2016. Liander has submitted a reasoned rejection of these claims.

Liander has received a claim concerning alleged improper payments for managing and leasing equipment. There are several proceedings relating to this subject involving Liander and other network operators.

### Credit risk

Alliander is exposed to credit risks relating to transaction counterparties, customer accounts and supplier accounts. Under the current credit management policy, credit risks are managed proactively, using established credit analysis and credit management techniques. There were no material credit-related losses in the first half of 2016.

# Financial performance

## General

As noted above, on 1 January 2016 the transaction was completed under which the Enexis networks in Friesland and the Noordoostpolder (AEF) were purchased from Enexis and at the same time the networks in the Eindhoven and Zuidoost-Brabant region (Endinet Groep B.V) were sold to Enexis. This had already been recognised in Alliander's income statement for the first half of 2015 by classifying Endinet as a discontinued operation. Consequently, Endinet was no longer consolidated in the individual items in Alliander's 2015 income statement but its net result was recognised as results from discontinued operations. Endinet was sold on 1 January 2016. Alliander's income statement for the first half of 2016 recognises the book profit on Endinet as a profit from discontinued operations.

On 1 January 2016, AEF was integrated immediately in the network operator Liander. Since that date, therefore, AEF's revenue, costs and balance sheet items have been recognised in Liander. Alliander's income statement for continuing operations for the first half of 2016, therefore, includes AEF and excludes Endinet (2015: excludes Endinet and AEF).

Since there were several asset transactions at AEF in 2015, it has not been possible to prepare comparative figures for AEF for the first half of 2015.

The profit after tax over the first half of 2016 was up by €71 million compared with the corresponding period in 2015 and came in at €232 million. The profit in 2016 includes the book profit of €176 million on the sale of Endinet to Enexis. For comparison purposes it is noted that the result of 2015 includes an incidental gain of €66 million for the CDS. Profit after tax from continuing operations excluding incidental items was €64 million and so was €52 million lower compared with the corresponding period in 2015. This was mainly as a result of higher purchase costs, costs of subcontracted work and operating expenses and higher depreciation, set off to some extent by higher contributions to operations from customers.

The net debt position fell by €127 million to €1,608 million as a result of the redemption of long-term EMTN loans and current ECP loans, partly set off by the issue of a green bond loan of €300 million in April. The solvency ratio improved in the first half of 2016 by some 4% to 60%.

## Income statement

### Total income

At €848 million, total income for the first half of 2016 was up by €26 million compared with the first half of 2015. This was partly because of a €17 million rise in contributions to operations and an increase of €10 million in regulated revenue following the purchase of the networks in Friesland and the Noordoostpolder on 1 January 2016.

### Operating expenses

Total operating expenses for the first half of 2016 came in at €740 million (first half of 2015: €593 million). Total operating expenses in 2015 included a large gain as a result of the contractual termination of a financial instrument related to two cross-border lease agreements. Adjusted for this incidental gain, there was an increase of €72 million compared with the first half of 2015, mainly due to:

- an increase in depreciation of €23 million, partly due to the networks taken over, the higher level of capital expenditure in 2016 and accelerated depreciation on metering devices as a result of the faster large-scale offering of smart meters;
- an increase of €19 million in surcharge tax charges owing to an increase in the number of municipalities levying the tax and a rise in rates;
- increased staff costs (for both permanent staff and contract staff) totalling €15 million, mainly as a result of negotiated pay rises and additions to staff-related provisions caused by a lower actuarial interest rate. The increase in the number of FTEs coming from Enexis was roughly offset by fewer FTEs in the other business units;

- increased purchase costs of €10 million mainly concerning higher costs for the unregulated activities of Liandon and Liander as a result of more unregulated activities (and associated higher costs) compared with the previous year;
- increased other operating expenses of €7 million, due in part to higher professional fees as a result of the reparcelling operation with Enexis B.V., higher ICT costs and a higher addition to the provision for impairment of trade receivables;
- increased costs for purchasing electricity of €5 million, partly because the costs in 2015 were positively affected by prior-year settlements with TenneT;
- an increase in capitalised production (€7 million) due to a greater number of hours worked on capitalised projects as a result of more activities.

### Finance income and expense

Finance income and expense in the first half of 2016 resulted in a net expense of €28 million (first half 2015: €34 million). The reduction was mainly due to refinancing at a lower interest rate and lower net debt.

### Share in results from associates and joint ventures

The share in the results from associates and joint ventures for the first half of 2016 was a loss of €1 million (first half 2015: €1 million loss).

### Tax

The effective tax burden (the tax burden expressed as a percentage of the profit before tax excluding the result after tax from associates and joint ventures) amounted to 28.8% in the first half of 2016 (first half 2015: 24.6%). The difference between the effective tax burden and the standard rate of tax (25%) is mainly accounted for by non-deductible expenses and unrecognised tax losses on foreign operations.

## Incidental items and fair value movements

Alliander's results can be affected by incidental items and fair value movements. Alliander defines incidental items as those 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

€ million	Reported		1 <sup>st</sup> half		Excluding incidental items and fair value movements	
	2016	2015	Incidental items and fair value movements		2016	2015
			2016	2015		
<b>Revenue</b>	783	777	-	-	783	777
Other income	65	45	-	-	65	45
Total purchase costs, costs of subcontracted work and operating expenses	-649	-518	-11	64	-638	-582
Depreciation and impairments	-182	-159	-	-	-182	-159
Own work capitalised	91	84	-	-	91	84
<b>Operating profit (EBIT)</b>	<b>108</b>	<b>229</b>	<b>-11</b>	<b>64</b>	<b>119</b>	<b>165</b>
Finance income/(expense)	-28	-34	-	-5	-28	-29
Result from associates and joint ventures	-1	-1	-	-	-1	-1
<b>Profit before tax</b>	<b>79</b>	<b>194</b>	<b>-11</b>	<b>59</b>	<b>90</b>	<b>135</b>
Tax	-23	-48	3	-14	-26	-34
Profit after tax from continuing operations	56	146	-8	45	64	101
Profit after tax from discontinued operations	176	15	176	-	-	15
<b>Profit after tax</b>	<b>232</b>	<b>161</b>	<b>168</b>	<b>45</b>	<b>64</b>	<b>116</b>

### Notes to incidental items

€5 million of the incidental expense of €11 million in purchase costs, costs of subcontracted work and operating expenses related to project and integration charges on the acquisition of the networks in Friesland and the Noordoostpolder (first half 2015: nil) and €4 million to professional fees for this transaction. Given the non-recurring nature of the reparcelling operation, these expenses are recognised as an incidental item in the result.

The remainder of the incidental item in purchase costs, costs of subcontracted work and operating expenses in the first half of 2016 (€2 million) was related to costs associated with organisational changes (2015: €2 million).

The incidental gain, amounting to €64 million, in purchase costs, costs of subcontracted work and operating expenses in the first half of 2015 was mainly the €66 million gained on the contractual termination of the CDS. This concerned a financial instrument related to two cross-border lease agreements.

The incidental financial expense of €5 million in the first half of 2015 was mainly foreign exchange losses relating to the CDS (which was a US dollar instrument).

The tax effect on the incidental items and fair value movements has been included in the tax item.

The result after tax on discontinued operations of €176 million related entirely to the book profit on the sale of Endinet to Enexis. The participation exemption applies to this book profit.

## Segment information

The segments were revised following the sale of Endinet on 1 January 2016. From the financial year 2016, Alliander is using the following segments:

- Network operator Liander
- Other

Until 2015, Endinet was reported as a separate segment and the segments were:

- Network operator Liander
- Network company Endinet
- Other

The segments correspond to Alliander's internal reporting structure. In the first half of 2015 the internal reporting structure did not take account of the classification of Endinet as 'held for sale', meaning that Endinet was included in the Alliander consolidation, with amortisation/depreciation continuing. As a consequence, the segment results for the first half of 2015 are not the same as the operating profit recognised in the income statement.

The operating profit of the segment represented by network operator Liander in the first half of 2016 amounted to €154 million, a decrease of €43 million compared with the first half of 2015, partly as a consequence of the decrease in regulated tariffs. The network company Endinet segment was sold on 1 January 2016 and so is no longer part of Alliander from 2016. The Other segment (mainly comprising non-regulated activities, corporate staff departments and service units) posted an operating loss of €35 million (first half 2015: €29 million loss) as a result of non-charged costs of corporate staff departments and service units and new activities.

## Cash flows

### Cash flow from operating activities

Cash flow from operating activities in the first half of 2016 was €106 million (first half 2015: €241 million). The decrease of €135 million is mainly accounted for by lower revenues and increased costs and movements in working capital.

### Cash flow from investing activities

The cash flow from investing activities in the first half of 2016 amounted to €95 million (first half 2015: €-229 million). The increase was caused mainly by the sale of Endinet B.V. offset in part by the purchase of AEF B.V. The investments in property, plant and equipment in the first half of 2016 amounted to €304 million (first half 2015: €261 million).

## Investments in property, plant and equipment

€ million	2016	1 <sup>st</sup> half <sup>1</sup>	2015
Electricity regulated		134	110
Gas regulated		59	68
Metering devices		53	26
Buildings, ICT etc.		58	57
<b>Total</b>		<b>304</b>	<b>261</b>

1 Including capital expenditure by Endinet (2015) and in Germany.

### Cash flow from financing activities

The cash flow from financing activities for the first half of 2016 amounted to an outflow of €211 million compared with an outflow of €20 million for the corresponding period in 2015. The increase was partly a result of the contractual redemptions in the EMTN portfolio.

## Financing and credit rating

### Financial policy

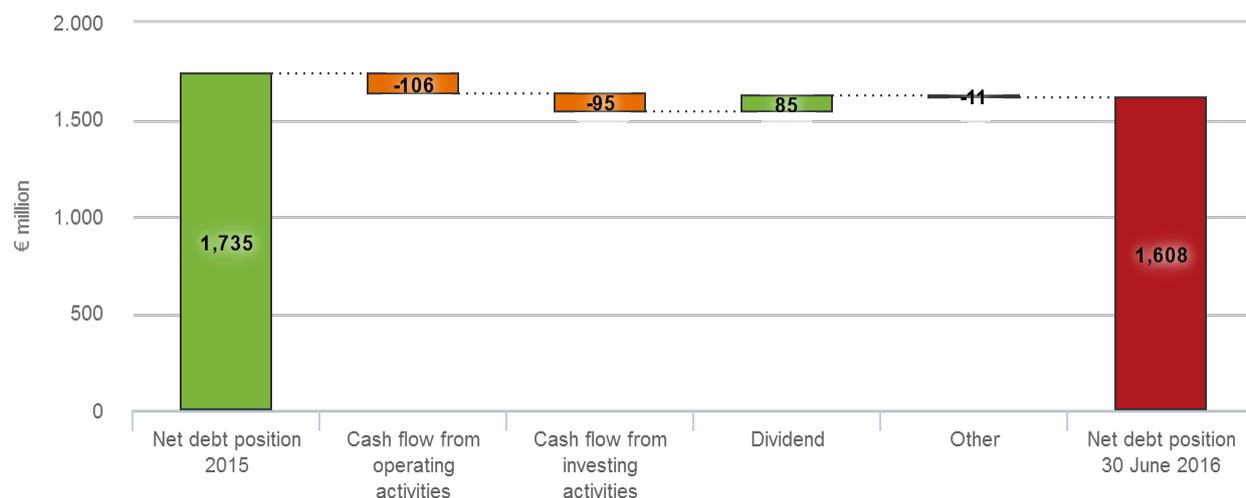
Alliander's financial policy is aimed at achieving a balance between protecting bond holders and other providers of borrowed capital and maintaining an adequate shareholders' return, while preserving the necessary flexibility to enable the company to grow and invest. The financial framework within which Alliander operates is based on the four ratios presented in the key figures. As of 30 June 2016 all four ratios satisfied the standards set.

The general principles of the financial policy are to ensure a balanced repayment schedule and to have access to 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 2016, based on IFRS, amounted to €1,360 million (31 December 2015: €1,487 million) and, based on Alliander's financial policy, €1,608 million (31 December 2015: €1,735 million). The decrease of €127 million was mainly due to the proceeds from the reparcelling operation with Enexis B.V. of €359 million partly offset by payment of the 2015 dividend of €85 million in April 2016 and the lower cash flow from operating activities.

## Development of net debt position



## Reconciliation of net debt position

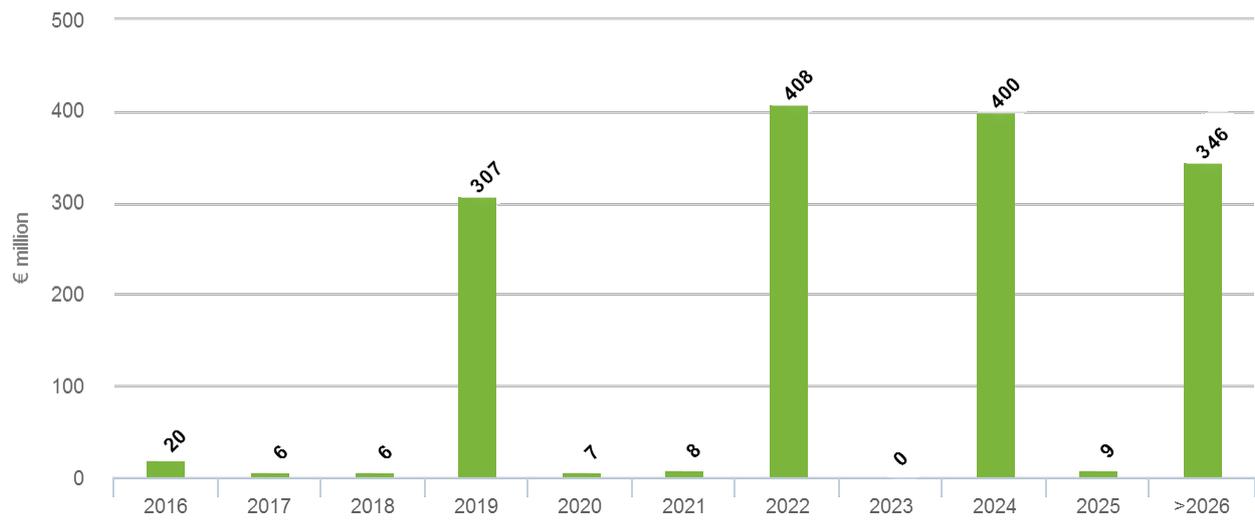
€ million	30 June 2016	31 December 2015
Long-term interest-bearing debt	1,484	1,197
Short-term interest-bearing debt	25	471
Finance lease liabilities	160	162
<b>Gross debt</b>	<b>1,669</b>	<b>1,830</b>
Cash and cash equivalents	79	89
Current financial assets	-	25
Investments held for lease obligations related to cross-border leases	230	229
<b>Total cash and cash equivalents and investments</b>	<b>309</b>	<b>343</b>
<b>Net debt in accordance with the annual financial statements (IFRS)</b>	<b>1,360</b>	<b>1,487</b>
50% of the subordinated perpetual bond loan	248	248
<b>Net debt on the basis of Alliander's financial policy</b>	<b>1,608</b>	<b>1,735</b>

### Credit facilities

As at the end of June 2016, Alliander had at its disposal a revolving credit facility (RCF) for a total amount of €600 million, running until mid-July 2018. The RCF had not been drawn on as at 30 June 2016 nor as at 31 December 2015. Alliander also has an EMTN programme of €3 billion, under which bonds of €1.4 billion had been issued as at 30 June 2016 (31 December 2015: €1.5 billion), and an ECP programme of €1.5 billion which had not been drawn on at 30 June 2016 (31 December 2015: €46 million).

The repayments in the first half of 2016 chiefly related to €400 million under the EMTN programme (repayment in April 2016) and the ongoing ECP programme (repayments of current drawings in January, May and June 2016). In 2016, €300 million of green bonds were issued under the EMTN programme. The repayment obligations in the years ahead are mainly connected with the bond loans under the EMTN programme.

## Repayment schedule for interest-bearing debt



## Statement by the Management Board

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

1. The consolidated half-year financial statements for 2016 provide a true and fair view of the assets, liabilities, financial position and profit of Alliander N.V. and its consolidated group companies; and
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 2016 for Alliander N.V. and its consolidated group companies.

Arnhem, 27 July 2016

Management Board

Peter Molengraaf, Chairman

Mark van Lieshout

Ingrid Thijssen



Alliander's Management Board, from left to right: Ingrid Thijssen, Peter Molengraaf and Mark van Lieshout

# Condensed consolidated half-year financial statements 2016

## Consolidated income statement

€ million	1 <sup>st</sup> half <sup>1</sup>	
	2016	2015
<b>Revenue</b>	<b>783</b>	<b>777</b>
Other Income	65	45
<b>Total income</b>	<b>848</b>	<b>822</b>
<b>Operating expenses</b>		
Purchase costs and costs of subcontracted work	-195	-182
Employee benefit expenses	-238	-222
External personnel expenses	-60	-61
Other operating expenses	-156	-53
<b>Total purchase costs, costs of subcontracted work and operating expenses</b>	<b>-649</b>	<b>-518</b>
Depreciation and impairment of property, plant and equipment	-182	-159
Less: Own work capitalised	91	84
<b>Total operating expenses</b>	<b>-740</b>	<b>-593</b>
<b>Operating profit</b>	<b>108</b>	<b>229</b>
Finance income	8	4
Finance expense	-36	-38
Result from associates and joint ventures after tax	-1	-1
<b>Profit before tax from continuing operations</b>	<b>79</b>	<b>194</b>
Tax	-23	-48
Profit after tax from continuing operations	56	146
Profit after tax from discontinued operations	176	15
<b>Profit after tax</b>	<b>232</b>	<b>161</b>

1 2016: including AEF, excluding Endinet  
 2015: excluding AEF and Endinet (except for the profit after tax)  
 See page 16 for the notes

## Consolidated statement of comprehensive income

€ million	1 <sup>st</sup> half	
	2016	2015
<b>Profit after tax</b>	<b>232</b>	<b>161</b>
<b>Other elements comprehensive income</b>		
Elements that are settled through the income statement		
Revaluation of available-for-sale financial assets	4	-
<b>Comprehensive income</b>	<b>236</b>	<b>161</b>

## Consolidated balance sheet

€ million	30 June 2016	31 December 2015
<b>Non-current assets</b>		
Property, plant and equipment	6,366	5,899
Intangible assets	302	280
Investments in associates and joint ventures	8	9
Available-for-sale financial assets	230	229
Other financial assets	41	42
Deferred tax assets	236	248
	<b>7,183</b>	<b>6,707</b>
<b>Current assets</b>		
Inventories	59	54
Trade and other receivables	241	238
Other financial assets	-	25
Cash and cash equivalents	79	89
	<b>379</b>	<b>406</b>
Assets held for sale	-	613
<b>Total assets</b>	<b>7,562</b>	<b>7,726</b>
<b>Equity &amp; liabilities</b>		
<b>Equity</b>		
Share capital	684	684
Share premium	671	671
Subordinated perpetual bond	496	496
Revaluation reserve	57	53
Other reserves	1,697	1,548
Result for the period	232	235
<b>Total equity</b>	<b>3,837</b>	<b>3,687</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Interest-bearing debt	1,484	1,197
Finance lease liabilities	160	162
Deferred income	1,580	1,559
Deferred tax liabilities	22	-
Provisions for employee benefits	50	49
Other provisions	4	3
	<b>3,300</b>	<b>2,970</b>
<b>Short-term liabilities</b>		
Trade and other payables	125	133
Tax liabilities	25	101
Interest-bearing debt	25	471
Provisions for employee benefits	47	53
Accruals	203	216
	<b>425</b>	<b>974</b>
Liabilities held for sale	-	95
<b>Total liabilities</b>	<b>3,725</b>	<b>4,039</b>
<b>Total equity and liabilities</b>	<b>7,562</b>	<b>7,726</b>

## Consolidated cash flow statement

€ million	1 <sup>st</sup> half	
	2016	2015
<b>Cash flow from operating activities</b>		
<b>Profit after tax</b>	232	161
Adjustments for:		
- Finance income and expense	28	34
- Tax	23	51
- Profit after tax from associates and joint ventures	1	1
- Depreciation and impairment less amortisation	150	136
- Release provision CDS after tax	-	-49
- Book profit sale Endinet	-176	-
Changes in working capital:		
- Inventories	-5	-7
- Trade and other receivables	-3	-5
- Trade and other payables and accruals	-6	18
<b>Total changes in working capital</b>	-14	6
Changes in deferred tax, provisions, derivatives and other	-24	-20
<b>Cash flow from operations</b>	<b>220</b>	<b>320</b>
Net interest paid	-39	-39
Net interest received	1	1
Corporate income tax paid (received)	-76	-41
<b>Total</b>	<b>-114</b>	<b>-79</b>
<b>Cash flow from operating activities</b>	<b>106</b>	<b>241</b>
<b>Cash flow from investing activities</b>		
Investments in property, plant and equipment	-304	-261
Construction contributions received	45	32
Acquisition less acquired cash and cash equivalents	-5	-
Cash flow from asset swap	359	-
<b>Cash flow from investing activities</b>	<b>95</b>	<b>-229</b>
<b>Cash flow from financing activities</b>		
Redemption EMTN	-400	-
EMTN issued	300	-
Redemption long-term debt	-5	-
ECP financing issued (redemption)	-47	-7
(Redemption) loans granted	1	-4
Received (granted) current deposits	25	-25
(Redemption) available-for-sale investments	-	141
Dividend paid	-85	-125
<b>Cash flow from financing activities</b>	<b>-211</b>	<b>-20</b>
<b>Net cash flow</b>	<b>-10</b>	<b>-8</b>
Cash and cash equivalents as at 1 January	89	167
Net cash flow	-10	-8
<b>Cash and cash equivalents as at 30 June</b>	<b>79</b>	<b>159</b>

## Reconciliation of net cash flow

The figures of Endinet Group were included when preparing the cash flow statement for the first half of 2015. Direct reconciliation between the figures in the cash flow statement and those in the balance sheet and the income statement is not possible since Endinet Group has not been included in the corresponding figures in the latter two statements. The cash flow analysed according to continuing operations (Alliander) and discontinued operations (Endinet Group) is as follows:

€ million	Continuing operations	Discontinued operations	Eliminations	Total
Cash flow from operating activities	219	22	-	241
Cash flow from investing activities	-219	-10	-	-229
Cash flow from financing activities	-20	-13	13	-20
<b>Net cash flow</b>	<b>-20</b>	<b>-1</b>	<b>13</b>	<b>-8</b>

## Consolidated statement of changes in equity

€ million	Equity attributable to shareholders and other providers of equity						
	Share capital	Share premium	Subordinated perpetual bond	Revaluation reserve	Other reserves	Profit for the year	Total
<b>As at 1 January 2015</b>	<b>684</b>	<b>671</b>	<b>496</b>	<b>42</b>	<b>1,363</b>	<b>323</b>	<b>3,579</b>
Profit after tax for the first half of 2015	-	-	-	-	-	161	161
<b>Comprehensive income for the first half of 2015</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>161</b>	<b>161</b>
Other <sup>1</sup>	-	-	-	-	-1	-	-1
Dividend for 2014	-	-	-	-	-	-125	-125
Profit appropriation for 2014	-	-	-	-	198	-198	-
<b>As at 30 June 2015</b>	<b>684</b>	<b>671</b>	<b>496</b>	<b>42</b>	<b>1,560</b>	<b>161</b>	<b>3,614</b>
Revaluation of available-for-sale financial assets	-	-	-	11	-	-	11
Interest coupon subordinated perpetual bond after tax	-	-	-	-	-12	-	-12
Profit after tax for the second half of 2015	-	-	-	-	-	74	74
<b>As at 31 December 2015</b>	<b>684</b>	<b>671</b>	<b>496</b>	<b>53</b>	<b>1,548</b>	<b>235</b>	<b>3,687</b>
Revaluation of available-for-sale financial assets	-	-	-	4	-	-	4
Profit after tax for the first half of 2016	-	-	-	-	-	232	232
<b>Comprehensive income for the first half of 2016</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>232</b>	<b>236</b>
Other <sup>1</sup>	-	-	-	-	-1	-	-1
Dividend for 2015	-	-	-	-	-	-85	-85
Profit appropriation for 2015	-	-	-	-	150	-150	-
<b>As at 30 June 2016</b>	<b>684</b>	<b>671</b>	<b>496</b>	<b>57</b>	<b>1,697</b>	<b>232</b>	<b>3,837</b>

1 Rounding differences are presented in 'Other'.

## Dividend

The dividend relating to the 2015 financial year (€85 million) was distributed in April 2016 (€0.62 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.

# Notes to the consolidated half-year figures

### General

Alliander N.V. is a public limited liability company, registered in Arnhem, Netherlands. This half-year report contains the financial information for the first half of 2016 relating to the company and its subsidiaries.

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

### Accounting policies

The same accounting policies were applied in preparing this report as for the 2015 annual report of Alliander N.V., which can be found at [www.alliander.com](http://www.alliander.com), with recognition of the following amendments to standards and interpretations effective as from 1 January 2016.

### New or amended IFRS standards for 2016

A number of changes or amendments to IFRS standards and interpretations adopted by the EU came into effect in 2016. These changes do not affect this half-year report. As these changes or amendments do not have a material impact on Alliander, they are not itemised here.

### Estimates, judgements and assumptions

In preparing this half-year report, Alliander made use of judgements, assumptions and estimates. This essentially relates to the measurement of provisions, deciding the useful lives of items of property, plant and equipment and any indication of impairment of items property, plant and equipment, revenue recognition, valuation of receivables and the determination of the amount of the deferred tax assets as well as the determination of the current tax position. The estimates, judgements 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 a 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 half-year report. The estimates and assumptions used are tested regularly and adjusted if necessary. The existing traditional meters used by retail customers will be replaced in an accelerated manner over the next few years through the large-scale installation of smart meters. The depreciation of meters due for replacement will be accelerated to 2020, leading to the depreciation charge being higher by €2.7 million each year compared with 2015.

Other than this, there have been no changes in estimates, judgements and assumptions compared with year-end 2015.

### Segment information

The segments were revised following the sale of Endinet on 1 January 2016. From the financial year 2016, Alliander is using the following segments:

- Network operator Liander
- Other

Until 2015, Endinet was reported as a separate segment and the segments were:

- Network operator Liander
- Network company Endinet
- Other

The segments correspond to Alliander's internal reporting structure. The networks in Friesland and the Noordoostpolder acquired on 1 January 2016 are included in the network operator Liander segment.

The figures for each reporting segment, excluding incidental items and fair value movements, are shown in the table below entitled 'Primary segmentation 1<sup>st</sup> half-year'. These figures are a direct reflection of the regular internal reporting. A reconciliation of the consolidated segment information and the reported profit before tax is also provided.

## Reconciliation of segment operating profits and consolidated profit

€ million	1 <sup>st</sup> half	
	2016	2015
<b>Consolidated segment operating profits excluding incidental items</b>	119	176
Incidental items and fair value movements	-11	64
Finance income and expense	-28	-34
Share in results from associates and joint ventures	-1	-1
Adjustment depreciation Endinet (Held for sale - IFRS 5)	-	9
Profit before tax from discontinued operations	-	-20
<b>Profit before tax from continuing operations</b>	<b>79</b>	<b>194</b>

## Primary segmentation first half-year

€ million	Network operator Liander		Network company Endinet		Other		Eliminations		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Operating income</b>										
External income	774	774	-	49	74	48	-	-	848	871
Internal income	2	3	-	-	163	151	-165	-154	-	-
<b>Operating income</b>	<b>776</b>	<b>777</b>	<b>-</b>	<b>49</b>	<b>237</b>	<b>199</b>	<b>-165</b>	<b>-154</b>	<b>848</b>	<b>871</b>
<b>Operating expenses</b>										
Operating expenses	622	580	-	41	272	228	-165	-154	729	695
<b>Operating profit</b>	<b>154</b>	<b>197</b>	<b>-</b>	<b>8</b>	<b>-35</b>	<b>-29</b>	<b>-</b>	<b>-</b>	<b>119</b>	<b>176</b>
<b>Segmented assets and liabilities</b>										
	30-6	31-12	-	31-12	30-6	31-12	30-6	31-12	30-6	31-12
<b>Total assets</b>	<b>6,863</b>	<b>6,326</b>	<b>-</b>	<b>592</b>	<b>2,561</b>	<b>2,974</b>	<b>-1,862</b>	<b>-2,213</b>	<b>7,562</b>	<b>7,679</b>
<b>Total liabilities</b>	<b>4,931</b>	<b>4,588</b>	<b>-</b>	<b>232</b>	<b>1,747</b>	<b>1,993</b>	<b>-2,953</b>	<b>-2,773</b>	<b>3,725</b>	<b>4,040</b>

In 2015 the internal reporting structure did not take account of the classification of Endinet as 'held for sale', meaning that Endinet was included in the Alliander consolidation, with amortisation/depreciation continuing. As a consequence, the segment results for 2015 are not the same as the operating profit recognised in the income statement.

### Seasonal influences

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

### EMTN programme

In April, Alliander issued a new €300 million bond loan at coupon rate of 0.875% with a term of 10 years. This was the first time that Alliander has issued a green bond: one that has to be used for sustainable capital expenditure. The proceeds from this green bond are being used in particular to refinance investment in smart meters and the sustainable renovation of the offices in Duiven.

The repayments in the first half of 2016 chiefly related to €400 million under the EMTN programme (repayment in April 2016) and the ongoing ECP programme (repayments of current drawings in January, May and June 2016). The repayment obligations in the years ahead are mainly connected with the bond loans under the EMTN programme.

## Sale of Endinet and purchase of networks in Friesland and the Noordoostpolder

The sale and purchase agreement (SPA) to purchase the Enexis networks in Friesland and the Noordoostpolder (Aktivabedrijf Enexis Friesland B.V., hereafter AEF B.V.) on 1 January 2016 and at the same time sell the networks in the Eindhoven and Zuidoost-Brabant region (Endinet Groep B.V.) was signed on 27 July 2015. Alliander sold the shares in Endinet Groep B.V. to Enexis and purchased the shares in AEF B.V. from Enexis, with an additional payment by Enexis of €365 million. AEF B.V. had 51,000 electricity and 196,000 gas connections in Friesland and 28,000 electricity and 27,000 gas connections in the Noordoostpolder. The AEF B.V. networks are surrounded by the area serviced by Liander and their acquisition will make for more efficient operations. The acquisition is also entirely in line with the strategy of having a single network operator for both electricity and gas in any one area or region.

Alliander acquired total control of AEF B.V. on 1 January 2016 and has included the company in the Alliander consolidation with effect from that date.

Under IFRS there are two separate transactions, viz.:

1. the sale of the shares of Endinet Groep B.V., and
2. the purchase of the shares of AEF B.V.

### Sale of the shares of Endinet Groep B.V.

For the purposes of determining the book profit on the sale of the shares of Endinet Groep B.V., IFRS requires the fair value of Endinet to be measured. This was done on the basis of cash flows for the medium and long term, regulatory developments, outperformance effects and synergy gains. The fair value of Endinet Groep B.V. as at 1 January 2016 including the final settlement has been calculated at €708 million. The book value of the assets and liabilities transferred to Enexis was €518 million, and can be specified as follows:

€ million	as at 31 December 2015
<b>Assets</b>	
<b>Non-current assets</b>	
Property, plant and equipment	554
Intangible assets	41
Financial fixed assets	1
<b>Total Non-current assets</b>	<b>596</b>
<b>Current assets</b>	<b>17</b>
<b>Total assets</b>	<b>613</b>
<b>Liabilities</b>	
<b>Non-current liabilities</b>	<b>88</b>
<b>Short-term liabilities</b>	<b>7</b>
<b>Total liabilities</b>	<b>95</b>
<b>Net assets</b>	<b>518</b>

The assets and liabilities were presented as assets and liabilities 'held for sale' in the consolidated balance sheet of Alliander as at 31 December 2015. The total net assets include goodwill amounting to €36 million relating to Endinet's activities.

The book result has been determined as follows:

€ million	
Fair value Endinet	708
Total net assets	-518
Contributions for personnel	-14
<b>Book result</b>	<b>176</b>

The contribution for personnel related to the payment to be made by Alliander to Enexis in respect of the transfer of 'Not Primarily Network'-related staff from Alliander/Endinet to Enexis. This is covered by separate agreements in the SPA. The book profit is recognised in the result from discontinued operations in the income statement for 2016.

See the Business combinations section for the purchase of the networks in Friesland/Noordoostpolder.

## Business combinations

### Purchase of the shares of AEF B.V.

The final purchase price for AEF B.V. was established at fair value at €335 million based on its figures for 2015 and including settlement. This fair value was also established on the basis of cash flows for the medium and long term, regulatory developments, outperformance effects and synergistic gains.

At the time of preparation of the half-year report, the purchase price allocation had not been finalised. A number of minor changes have been made to the provisional fair value as a result of the AEF B.V.'s final figures for 2015 and the settlement compared with the 2015 financial statements.

The provisional allocation of the purchase price is presented in the following statement:

€ million	Provisional fair value as at 1 January 2016
<b>Assets</b>	
Property, plant and equipment; networks and connections	326
Other property, plant and equipment	20
Intangible assets	3
Current assets	-
<b>Total assets</b>	<b>349</b>
<b>Liabilities</b>	
Interest-bearing debt	-
Deferred tax liabilities	20
Other provisions	1
Short-term liabilities	1
<b>Total liabilities</b>	<b>22</b>
<b>Net assets acquired</b>	<b>327</b>
<b>Purchase price</b>	
Cash	335
<b>Total purchase price</b>	<b>335</b>
Less: net assets acquired	327
<b>Goodwill</b>	<b>8</b>

### AEF B.V.

The total purchase price as at 1 January 2016 amounted to €335 million. It should be noted that the above figures are subject to change, to reflect the actual situation as at 1 January 2016, at any time up to one year after the acquisition date (i.e. in the period up to 1 January 2017). The networks in Friesland/Noordoostpolder were immediately integrated in Liander.

### Net assets acquired (€327 million)

The property, plant and equipment acquired with AEF B.V. relate to distribution networks, connections and meters valued at €326 million and other property, plant and equipment, essentially comprising land and buildings amounting to €20 million. The intangible assets of €3 million relate to lease contracts for switching installations, transformers and compact substations. The deferred tax liabilities relate to the difference between the reported carrying amounts of the electricity and gas distribution networks and the corresponding tax bases. The provisions relate mainly to provisions for employee benefits and are directly connected with the 125 staff taken over from Enexis.

### Goodwill (€8 million)

The goodwill of €8 million is largely related to the provision for deferred tax liabilities. It is not expected that the goodwill will be deductible for corporate income tax purposes.

### Other

The total costs associated with the acquisition of AEF B.V. amounted to €2.7 million. An amount of €0.7 million of these costs was recognised in the income statement for 2015 and the remainder is accounted for in 2016. The estimated revenue of AEF B.V. for the first half of 2016 was €32 million and the operating profit for the same period was €13 million.

## Discontinued operations 2015

This concerns the consolidated income statement of Endinet Groep B.V. for the first half of 2015.

## Consolidated income statement of Endinet Group

€ million	1 <sup>st</sup> half 2015
<b>Revenue</b>	<b>47</b>
Other Income	2
<b>Total income</b>	<b>49</b>
<b>Operating expenses</b>	
Purchase costs and costs of subcontracted work	-7
Employee benefit expenses	-11
External personnel expenses	-1
Other operating expenses	-4
<b>Total purchase costs, costs of subcontracted work and operating expenses</b>	<b>-23</b>
Depreciation and impairment of property, plant and equipment	-9
Less: Own work capitalised	3
<b>Total operating expenses</b>	<b>-29</b>
<b>Operating profit</b>	<b>20</b>
Finance income / (expense)	-
<b>Profit before tax</b>	<b>20</b>
Tax	5
<b>Profit after tax</b>	<b>15</b>

## Cross-border lease contracts

In the period 1998 to 2000, subsidiaries of Alliander N.V. entered into cross-border leases for networks with US investors, including LILO (lease-in lease-out) and SILO (sale-in lease-out) transactions. The three transactions currently remaining relate to gas networks in Friesland, Gelderland, Flevoland, Noord-Holland and Utrecht, district heating networks in Almere and Duiven/Westervoort and the electricity network in the Randmeren region. The networks have been leased for a long period to US parties (head lease) which have in turn subleased the assets to the various Alliander subsidiaries (sublease). At the end of the sublease there is the option of purchasing the rights of the American counterparty under the head lease, thus ending the transaction.

The terms agreed for the subleases expire between 2022 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.

The total net carrying amount of the assets forming the subject of cross-border leases as at mid-2016 amounted to €0.5 billion (year-end 2015: €0.5 billion). At the end of June 2016, a total of \$2.5 billion (year-end 2014: \$2.6 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 the assets concerned and associated liabilities, they are not regarded as assets and liabilities of Alliander and the respective amounts are not recognised in the consolidated financial statements of Alliander. The assets over which Alliander does have powers of disposal are recognised as financial assets. The associated lease obligations are recognised in finance lease liabilities.

At the end of June 2016, the 'strip risk' (the portion of the 'termination value' - the possible compensation payable to the American counterparty in the event of early termination of the transaction - which cannot be settled from the deposits and investments held for this purpose) for all transactions together was \$128 million (year-end 2015: \$180 million). The strip risk is largely dictated by market developments.

## Related parties

The Alliander group has interests in various associates and joint ventures over which it has significant influence but not control or has joint control of operations and financial policy. These associates and joint ventures are consequently designated as related parties. Transactions with these parties, some of which are significant, are executed on market terms and at market prices which are not more favourable than those which would be negotiated with independent third parties.

The following transactions were entered into with related parties for the purchase and sale of goods and services: sale of goods and services to associates €0.2 million (first half of 2015: €0.2 million) and joint ventures €36 million (first half of 2015: €36 million); purchase of goods and services from associates €5 million (first half of 2015: €5 million) and joint ventures €45 million (first half of 2015: €44 million).

As at the end of June 2016, Alliander had a receivable of €23 million (year-end 2015: €19 million) in respect of loans granted to related parties and liabilities of €16 million under a current account facility with related parties (year-end 2015: €21 million).

## Other

Existing financial commitments relating to property, plant and equipment not shown on the face of the balance sheet as at 30 June 2016 amounted to €131 million (year-end 2015: €121 million).

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

Compared with the situation as at year-end 2015, there have been no changes in the contingent assets and liabilities.

## Information on risks and financial instruments

### Financial risks

The following financial risks can be identified: market risk, credit risk and liquidity risk. The condensed consolidated half-year financial statements do not, as is required for full-year consolidated financial statements, contain comprehensive information on the above financial risks to which Alliander is exposed and the policy for managing the risks associated with financial instruments and they should be read in conjunction with the 2015 consolidated financial statements. There have been no changes in the risk management process or risk management policy since the end of 2015.

### Measurement of fair value of financial instruments carried at fair value

Disclosed in the following table are the financial instruments that are carried at fair value, ranked according to the fair value hierarchy. According to this hierarchy, the input data levels for measuring fair value are as follows:

- level 1, quoted prices (unadjusted) on active markets for comparable assets or liabilities;
- level 2, inputs other than level 1 quoted prices observable for a particular asset or liability, either directly (i.e. in the form of actual prices) or indirectly (i.e. derived from prices);
- level 3, inputs not based on observable market data.

### Fair value hierarchy

€ million	30 June 2016				31 December 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Available-for-sale financial assets	-	230	-	230	-	229	-	229
Current derivatives	-	-	-	-	-	-	-	-
<b>Total Assets</b>	-	<b>230</b>	-	<b>230</b>	-	<b>229</b>	-	<b>229</b>
<b>Liabilities</b>								
Current derivatives	-	-	-	-	-	-	-	-
<b>Total Liabilities</b>	-	-	-	-	-	-	-	-

### Methods used for level 2 fair value measurement

Available for sale financial assets consist of investments in securities whose fair value is equal to the carrying amount. These assets relate to cross-border lease contracts. The fair value is arrived at by discounting the future cash flows using the interbank interest rate as at the reporting date plus market credit spreads for these or similar investments.

### Fair value of other financial instruments

The following table shows the fair values of the financial instruments that are not recognised at fair value but at amortised cost. Also shown is the input data level according to the fair value hierarchy.

## Fair value of financial assets and liabilities measured at amortised costs

€ million	30 June 2016		31 December 2015	
	Fair value	Level	Fair value	Level
<b>Non-current assets</b>				
Other financial assets	57	2	47	2
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Finance lease liabilities	-235	2	-230	2
Interest-bearing debt:				
Euro Medium Term Notes	-1,589	1	-1,236	1
Other interest-bearing debt	-130	2	-128	2
<b>Total non-current liabilities</b>	<b>-1,954</b>		<b>-1,594</b>	
<b>Short-term liabilities</b>				
Interest-bearing debt:				
Euro Medium Term Notes	-	1	-405	1
Euro Commercial Paper	-	2	-46	2
Other interest-bearing debt	-26	2	-38	2
<b>Total short-term liabilities</b>	<b>-26</b>		<b>-489</b>	
<b>Total liabilities</b>	<b>-1,980</b>		<b>-2,083</b>	

### Measurement of fair value

The fair value of these instruments is measured as follows:

**Other financial assets:** The fair value of loans granted by Alliander is measured on the basis of the future incoming cash flows discounted using risk-free interest rates plus credit spreads for these or similar investments. As regards the current portion of these assets, it is assumed that the fair value is more or less the same as the carrying amount.

**Loans received:** The fair value of the Euro Medium Term Notes is measured on the basis of market prices quoted by Bloomberg. The fair value of the other loans received is measured on the basis of the outgoing cash flows discounted using risk-free interest rates plus credit spreads applicable to Alliander. As regards the current portion of these liabilities, it is assumed that the fair value is more or less the same as the carrying amount.

**Finance lease obligations:** the fair value of these liabilities is measured on the basis of the future cash flows discounted using risk-free interest rates plus credit spreads applicable to Alliander.

The fair value of the following financial assets and liabilities is more or less the same as the carrying amount:

- trade and other receivables;
- current tax assets;
- current other financial assets;
- cash and cash equivalents;
- trade and other payables;
- current tax liabilities.

# Review report

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

## Introduction

We have reviewed the condensed consolidated half-year financial statements for the period 1 January 2016 to 30 June 2016 of Alliander N.V., Arnhem, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement and notes, including a statement of the accounting policies used for the financial reporting and other notes. The company's Management Board is responsible for the preparation and presentation of the 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 2016 condensed consolidated half-year financial statements based on our review.

## Scope

We conducted our review of the interim financial information 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 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 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 2016 to 30 June 2016 have not been prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union.

Rotterdam, 27 July 2016  
Deloitte Accountants B.V.

J. Dalhuisen RA

July 2016

**Alliander N.V.**

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