Alliander N.V.

Half-Year Report 2011

18 August 2011

alliander

Disclaimer

This report is a translation of the Dutch report on the consolidated results for the first half of 2011 of Alliander N.V. Although this translation has been prepared with the utmost care, deviations form 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 synonyms for Alliander N.V. and its subsidiaries. Liander refers to grid manager Liander N.V and its subsidiaries. The name Endinet refers to the Endinet Group, including grid manager Endinet B.V. Stam in this report refers to Stam Heerhugowaard Holding B.V. and its subsidiaries and Liandon refers to Liandon B.V. Alliander N.V. is the sole shareholder of Liander N.V., Endinet Groep B.V., Liandon B.V., Alliander Telecom N.V., Alliander Participaties B.V., Stam Heerhugowaard Holding B.V and Alliander AG.

Parts of this report contain forward-looking information. These parts may – without limitation – include statements on government measures, including regulatory measures, on Alliander's share and the share of its subsidiaries and joint ventures in existing and new markets, on industrial and macroeconomic trends and on the impact of these expectations on Alliander's operating results.

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

This report has been prepared using the accounting policies applied in the preparation of the 2010 Annual Report of Alliander N.V., which can be found on www.alliander.com.

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 subsidiaries Liander and Endinet manage the regional gas and electricity grids in the provinces of Gelderland, Friesland, Noord-Holland and parts of Zuid-Holland, Flevoland and Noord-Brabant. Liander and Endinet are responsible for the energy infrastructure connections of approximately 3 million customers and for transporting electricity and gas to them. Alliander's subsidiary Liandon provides services relating to the construction and maintenance of complex energy infrastructures.

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

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

Key figures

Financial key figures		
€ million, unless otherwise stated	1st half	
	2011	2010
Revenue	**763**	679
Operating expenses	**617**	601
Operating profit	**199**	129
Profit after tax	**119**	62
Operating profit excluding incidental items and fair value movements	**190**	148
Profit after tax excluding incidental items and fair value movements	**111**	70
Investments in property, plant and equipment	**201**	157
Cash flow from operating activities	**243**	163
	30/06/2011	31/12/2010
Total assets	**7,382**	7,400
Total equity	**2,939**	2,906
Net debt [1]	**1,445**	1,425
ROIC [2]	**7.1%**	6.9%

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

2. Return on invested capital (ROIC) is defined as the 12-month operating profit adjusted for incidental items and fair value movements, profit after tax from associates and joint ventures and tax, as a percentage of average invested capital (= the sum of the carrying amounts of intangible assets, financial assets, property, plant and equipment and working capital less deferred income).

Other key figures			
Ratios in accordance with financial policy [3]	**Norm**	**30/06/2011**	31/12/2010
FFO / net debt	> 20%	**35.0%**	31.9%
Interest cover	> 3,5	**6.0**	5.5
Net debt / (net debt + equity)	< 60%	**39.0%**	39.3%
Solvency	> 30%	**45.2%**	44.3%
Employees			
Number of permanent and tempory staff (in FTE)		**6,263**	6,044
Customers			
Customer satisfaction, consumer market [4]		**92%**	91%
Customer satisfaction, business market [4]		**86%**	87%
Electricity outage (minutes) [5]		**26.3**	31.2

3. The financial framework within which Alliander operates is based on four ratios, as presented in the above table. These ratios are calculated according to the principles of our financial policy. These principles differ in one respect from the classification according to IFRS: under IFRS the subordinated perpetual bond loan is recognised as equity whereas, according to the principles of our financial policy, this instrument is treated as 50% borrowed capital and 50% equity.

   The funds from operations (FFO) / net debt ratio is the 12-month profit after tax adjusted for deferred tax movements and incidental items and fair value movements plus depreciation of property, plant and equipment and amortisation of intangible assets net of accrued income, as a percentage of net debt. The interest cover ratio concerns the 12-month profit after tax, adjusted for deferred tax movements and incidental items and fair value movements plus depreciation of property, plant and equipment and amortisation of intangible assets, plus net finance income and expense divided by net finance income and expense adjusted for incidental items and fair value movements. The solvency ratio is obtained by dividing total equity including the profit for the period by total assets less the expected dividend distribution for the current year and deferred income.

4. Customer satisfaction is a measure of the relative satisfaction rating for customers in both the consumer and business markets, calculated by an external agency several times a year using random surveys.

5. The outage duration expresses in minutes the average time for which our customers are without electricity over a 12-month period in the area served by Liander.

Report of the Management Board

Summary of significant events

Introduction of Smart meters

On 22 February 2011, the Upper House of the Dutch Parliament passed the amended bills relating to the introduction of the smart meter in the Netherlands, among other matters.

With the passage by Parliament of the amended legislation, Minister of Economic Affairs, Agriculture and Innovation Verhagen is keen to make a start on introducing smart meters on a small scale over the next two years. After this pilot period, a start can be made with a large-scale rollout. The standards to be satisfied by the meters have been laid down in a General Administrative Order.

The amended legislation makes acceptance of smart meters by consumers discretionary and creates better safeguards of privacy. Grid managers will be able to read meters six times a year to produce usage reports. If consumers give their express consent, for example in order to avail themselves of certain energy-saving services, meter readings can be taken more frequently. The new meters will be able to give consumers a better picture of their energy consumption. They also form an important building block in the smart grids of the future.

The introduction of smart meters means that Dutch grid managers will be embarking on the implementation of various almost identical projects. A study will be made to identify areas in which collaboration is possible, for example procurement, management and ICT.

Under the new legislation, consumer meters (including smart meters) definitively become part of the regulated domain of grid managers with effect from 1 January 2012. The new legislation also makes provision for the implementation of the new market model for the consumer market, the so-called suppliers model.

Energy Report 2011

In June 2011, the Ministry of Economic Affairs, Agriculture & Innovation published the Energy Report 2011. The report re-emphasises the importance of an effective and robust energy infrastructure and recognises the need for major energy infrastructure investments. It is considered important to create the necessary leeway for grid managers by continuing to facilitate investments and the raising of the necessary finance (to which end, the possibility of partial privatisation (minority interest) is created for the national grid operators TenneT and Gasunie) but also by creating a suitable investment climate. A regulatory regime that encourages the necessary investments is therefore very important.
With this report, the government endorses the important role of the electricity and gas infrastructure in the transition to a sustainable energy supply.

Smart grids

In the first half of 2011, Liander started the installation of innovative control systems at key nodal points in the electricity network. The fitting of Station Automation Sensors ('SASensors') will make the nodes – substations – in the electricity distribution system fully digital. These new systems will ensure that power failures are of shorter duration and facilitate the increasing sustainability of power supplies.

The creation of smart grids, in which the digitalisation of the substations is an initial step, plays an important part in the creation of the sustainable energy supply system of the future. It will make it possible to monitor the quality of the network voltage on a continuous basis, which is an important factor in maintaining the reliability of the grid as more and more customers start generating power themselves – using wind turbines or solar panels, for example – which is then fed back into the grid. The digitalisation of all the substations throughout the network will take approximately seven years.

Alliander has acquired 14% of the share capital of Locamation Beheer B.V., a designer and supplier of smart grid technology, including the SASensor, involving an investment of € 3 million. The investment is associated with the introduction of innovative control systems for our networks.

Merger of Alliander N.V. and Alliander Finance B.V.

On 17 June, the deed formalising the legal merger of Alliander N.V. (acquirer) and Alliander Finance B.V. (acquiree) was executed. The merger means that all rights and obligations of Alliander Finance B.V. (including all liabilities in respect of the issued bonds (EMTN programme) listed on the Luxembourg Stock Exchange and on Euronext Amsterdam) are transferred under universal title to Alliander N.V.

Customers

Customer satisfaction

Consumer market customer satisfaction has improved by 1 percentage point relative to the year-end 2010 score (to 92%) but, in the business market, the score was down by one percentage point relative to year-end 2010 (at 86%).

Insight into energy consumption

Alliander and Enexis introduced a new online service in the first half of 2011 under the label 'Energie in Beeld' (Energy View), allowing municipal authorities to obtain an insight into the total consumption of gas and electricity within their municipality. Armed with this data, the authorities will be able to refine their climate policy. It will help municipalities to target suitable measures. Any municipality in the supply area covered by Enexis and Liander will be able to use the Energie in Beeld service.

The first E-atlas for housing associations was presented. E-atlas gives housing associations an insight into the energy consumption across their housing stock in areas in which Liander is grid manager. The system also enables housing associations to monitor the effect of their climate policy. For the majority of housing associations, their actions to address climate change constitute an important element of policy.

Power outages

Ensuring the continuous distribution of energy to our customers via a reliable grid is our principal task. The reliability of the electricity supply is reflected in the outage figure. The outage duration expresses in minutes the average time for which our customers are without electricity over a 12-month period in the area served by Liander.

Compared with the situation as at year-end 2010, the outage figure was reduced from 31.2 minutes to 26.3 minutes. This reduction represents the initial result of an improvement programme aimed at cutting the outage duration. Features of the programme include:

- The large-scale rollout of GSM outage alarms at the key risk points in our distribution network. These devices help to determine the precise location of a fault and automatically call in as soon as the power fails. The duty manager is then able to direct engineers to where they are needed more accurately, enabling faults to be repaired more rapidly.
- The proactive inspection of excavation activities affecting the medium-voltage lines. Excavators are the main cause of disruptions to power supplies. Analysis has shown that excavation damage to medium-voltage cables has the biggest impact on the number of outages.
- Optimisation of the maintenance process.

In the long run, the introduction of the SASensor will also help to reduce outage duration.

Employees

Compared with the position as at year-end 2010, the total strength of the workforce at the end of June 2011 – both permanent and temporary staff – was up by 219 FTEs overall, at 6,263 FTEs. The increase is the net effect of a higher FTE count in our operational organisation, connected with the higher level of investment, which was partially offset by a drop in the number of FTEs in ICT and the central staff departments.

In April 2011, the employers' association WENb and the unions reached agreement on a new Network Companies Collective Labour Agreement. The new CLA creates an opportunity for employers and unions to introduce new conditions of employment and runs for two years, from 1 May 2011 to 30 April 2013. In the new CLA, the agreements regarding extra job creation efforts to strengthen the position of people at a distance from the labour market are continued. Both employers and unions consider it important that people with a disadvantage in the labour market should also be given a chance in the industry.

Risks and uncertainties

In its 2010 annual report, Alliander outlined the principal risks and uncertainties having a potential impact on the organisation. These risks and uncertainties remained largely unchanged in both the first and second halves of 2011. A risk management framework based on a collection of best practices, procedures and internal control systems is in place within the Alliander Group to identify and monitor risks and uncertainties. Further details can be found in the Risk Management and Risk Factors section of our 2010 annual report.

We continued to pay as much attention as ever to the subject of energy transition in the first half of 2011. This concerns the changing use of gas and electricity grids as a result, for example, of the growth of decentralised generation and feed-in power, electric transport and the emergence of two-way energy management. The rise and application of new technologies connected with smart grids and smart metering enable active energy management to be applied at various levels in the networks. Alliander is aware that the associated investments will necessitate a high level of capital expenditure which ultimately has to be funded within the constraints of the financial policy. The same essentially applies to the large-scale rollout of smart meters. These future developments have resulted in adjustments to the useful lives of the electricity and gas grids.

The credit crisis and subsequent recession prompted Alliander to continue its measures for controlling credit risks. Although no direct losses were suffered due to credit risks in the first half of 2011, in connection with our cross-border lease contracts, two banks were no longer able to meet the contractually required minimum credit rating. Appropriate action has accordingly been taken.

Financial performance

General

The profit after tax for the first half of 2011 was up by € 57 million compared with the corresponding period in 2010, at € 119 million, mainly as a consequence of:

- higher revenues in the regulated market due to the increase in the tariffs set by the Office of Energy Regulation;
- the consolidation of Endinet with effect from 1 July 2010.

Additionally, the cash flow from operating activities improved, while the solvency ratio and the net debt position remained steady.

Income statement

Operating income

Operating income in the first half of 2011 was up by € 86 million compared with the first half of 2010, at € 816 million. This increase is largely attributable to the higher regulated revenue (€ 44 million) due to the increase in the regulated rates and to the consolidation of Endinet's revenue with effect from 1 July 2010 (€ 54 million). On the other hand, Liandon's revenue relating to TenneT was down in 2011 (€ 13 million).

Operating expenses

Total operating expenses in the first half of 2011 came in at € 617 million (2010: € 601 million). The increase of € 16 million compared with H1 2010 was essentially due to:

- the consolidation of the operating expenses of Endinet (€ 40 million);
- higher depreciation charges due to the higher level of investment combined with changes in the useful lives of the distribution networks (€ 19 million).

This increase was largely offset by a reduction in costs due to:

- the movement in the exceptional item 'results on cross-border lease-related investments' (€ 28 million); and
- a lower level of activities at Liandon.

Finance income and expense

Finance income and expense in the first half of 2011 resulted in a net expense of € 55 million (2010: € 49 million). The increase of € 6 million is accounted for by exceptional income in 2010 coupled with the effect of lower interest expense in 2011 in connection with a reduced average net debt position.

Taxation

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) for the first half of 2011 amounts to 20.3% (2010: 26.3%). The difference compared with the standard tax burden (25%) is largely explained by an adjustment relating to the preceding year.

Incidental items and fair value movements

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

Overview of incidental items and fair value movements

€ million

	1st half	
	2011	2010
Results on cross-border lease-related investments	9	-19
Total impact on operating profit	**9**	**-19**
Interest and foreign exchange results financial instruments	1	9
Total impact on profit before tax	**10**	**-10**
Tax effect of incidental items	-2	2
Total impact on profit after tax	**8**	**-8**

Notes to incidental items

The result on cross-border lease-related investments concerns exchange rate differences between the euro and the dollar.

Segment information

The operating profit of the Grid Manager Liander segment rose by € 9 million, mainly as a consequence of the increase in the tariffs. The Network Company Endinet segment achieved an operating profit of € 14 million in the first half of 2011. Endinet was taken over by Alliander with effect from 1 July 2010, meaning that comparative figures have not been included for the first half of 2010. For the Other segment (all the other activities combined, including the central staff departments and service units), the operating result was a loss of € 2 million (2010: € 21 million loss).

Cash flows

Cash flow from operating activities

In the first half of 2011, the cash flow from operating activities was € 243 million (2010: € 163 million). The increase of € 80 million is largely accounted for by the increased profit after tax.

Cash flow from investing activities

Capital expenditure on property, plant and equipment in the first half of 2011 amounted to € 201 million (2010: € 157 million). The increase of € 44 million was mainly due to higher investments in the grids in connection with a higher planned level of replacement investment. The 2011 figures also include capital expenditure by Endinet (€ 8 million).

Investment in property, plant and equipment

€ million

	1st half	
	2011	2010
Electricity, regulated	108	88
Gas, regulated	62	38
Meters	12	15
Buildings, ICT etc.	19	17
Total	**201**	**157**

Cash flow from financing activities

The cash flow from financing activities in the first half of 2011 was an outflow of € 88 million compared with an inflow of € 211 million in the corresponding period in 2010. The difference is largely accounted for by placing surplus cash on short-term deposit.

Financing and credit rating

Financial policy

Alliander's financial policy is aimed at achieving a balance between protection of bond holders and other providers of borrowed capital and an adequate shareholders' return while preserving the necessary flexibility to enable the company to grow and invest. The financial framework within which Alliander operates is based on the four ratios presented in the key figures. As at 30 June 2011, all four ratios satisfied the standards set.

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

Net debt position and financing

The net debt position as at 30 June 2011, based on IFRS, amounted to € 1,445 million (2010: € 1,425 million) and, based on Alliander's financial policy, € 1,692 million, compared with a net debt position of € 1,672 million as at 31 December 2010.

Reconciliation net debt position

€ million

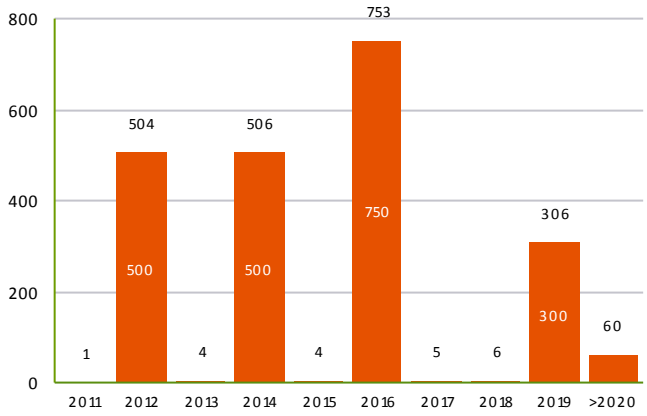
	30 June 2011		31 December 2010	
Long-term interest-bearing debt	1,650		2,152	
Short-term interest-bearing debt	508		32	
Finance lease liabilities	119		128	
Gross debt		**2,277**		**2,312**
Cash and cash equivalents	490		501	
Non-current financial assets	122		123	
Current financial assets	95		125	
Investments held for lease obligations related to cross-border leases	125		138	
Total cash and cash equivalents and investments		**832**		**887**
Net debt in accordance with the annual financial statements (IFRS)		**1,445**		**1,425**
50% of the subordinated perpetual bond loan		247		247
Net debt on the basis of Alliander's financial policy		**1,692**		**1,672**

Credit facilities

As at the end of June 2011, Alliander had at its disposal a revolving credit facility (RCF) for a total amount of € 600 million, running until the end of February 2015. In addition, Alliander has an EMTN programme of € 3 billion, of which € 2.05 billion was issued as at 30 June 2011 (31 December 2010: € 2.05 billion) and an ECP programme of € 1.5 billion. As at 31 December 2010, neither the RCF nor the ECP programme had been drawn on and there was no change in this situation as at 30 June 2011.

Repayment schedule

Interest-bearing debt repayment schedule
€ million



The repayments in the next few years largely comprise the bond loans issued under the EMTN programme. That part of the repayments due in 2012 (€ 500 million) has been recognised as a current liability in the balance sheet as at 30 June 2011.

Credit rating

Alliander's credit ratings in the first half of 2011 were unchanged and were as follows as at 30 June 2011:

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

Statement by the Management Board

The Management Board hereby declares that, to the best of its knowledge:
1. The consolidated half-year results for 2011 provide a true and fair view of the assets, liabilities, financial position and profit of Alliander N.V. and its consolidated group companies;
2. The report by the Management Board presents a true and fair account of the state of affairs as at balance sheet date, the main events during the half-year and details of the principal risks and uncertainties for the remaining six months of 2011 for Alliander N.V. and its consolidated group companies.

Arnhem, 18 August 2011

The Management Board
Peter Molengraaf, Chairman
Mark van Lieshout

Condensed consolidated half-year financial statements 2011

Consolidated income statement

Consolidated income statement				
€ million				
	1st half			
	2011		2010	
Revenue	**763**		**679**	
Other income	53		51	
Total income		**816**		**730**
Purchase costs and costs of subcontracted work	213		207	
Employee benefit expenses	192		177	
External personnel expenses	47		56	
Other operating expenses	79		105	
Total purchase costs, costs of subcontracted work and operating expenses	531		545	
Depreciation and impairment of property, plant and equipment	150		110	
Less: Own work capitalised	-64		-54	
Total operating expenses		617		601
Operating profit (EBIT)		**199**		**129**
Finance income and expense		-55		-49
Share in results of associates and joint ventures after tax		4		3
Profit before tax		**148**		**83**
Tax		29		21
Profit after tax		**119**		**62**

Consolidated statement of comprehensive income				
€ million				
	1st half			
	2011		2010	
Profit after tax		119		62
Other elements of comprehensive income				
Revaluation of available for sale assets	6		3	
Fair value movements	-		-9	
Total other elements of comprehensive income		6		-6
Comprehensive income		**125**		**56**

Consolidated balance sheet

Consolidated balance sheet				
€ million				
	30 June 2011		31 December 2010	
Assets				
Non-current assets				
Property, plant and equipment	5,453		5,402	
Intangible assets	320		320	
Investments in associates and joint ventures	64		57	
Available-for-sale financial assets	248		261	
Other financial assets	37		40	
Deferred tax assets	351		368	
Total non-current assets		**6,473**		**6,448**
Current assets				
Inventories	26		27	
Trade and other receivables	297		279	
Derivatives	1		1	
Tax assets	-		19	
Other financial assets	95		125	
Cash and cash equivalents	490		501	
Total current assets		**909**		**952**
Total assets		**7,382**		**7,400**
Equity and liabilities				
Equity				
Share capital	684		684	
Share premium	671		671	
Subordinated perpetual bond	494		494	
Hedge reserve	-12		-12	
Revaluation reserve	-1		-7	
Other reserves	984		854	
Profit after tax	119		222	
Total equity		**2,939**		**2,906**
Non-current liabilities				
Interest-bearing debt	1,650		2,152	
Derivatives	89		95	
Finance lease liabilities	119		128	
Deferred income	1,485		1,474	
Deferred tax liabilities	-		1	
Provisions for employee benefits	59		63	
Other provisions	46		52	
Total non-current liabilities		**3,448**		**3,965**
Short-term liabilites				
Trade and other payables	86		99	
Tax liabilities	64		67	
Interest-bearing debt	508		32	
Derivatives	8		7	
Provisions for employee benefits	58		56	
Accruals	271		268	
Total short-term liabilities		**995**		**529**
Total Liabilities		**4,443**		**4,494**
Total equity and liabilities		**7,382**		**7,400**

Consolidated cash flow statement

Consolidated cash flow statement				
€ million				
		1st half		
	2011		2010	
Cash flow from operating activities				
Profit after tax		**119**		**62**
Adjustments for:				
Finance income and expense		**55**		**49**
Tax		**29**		**21**
Profit after tax from associates and joint ventures		**-4**		**-3**
Depreciation and impairment less amortisation		**122**		**90**
Changes in working capital:				
- Inventories	1		2	
- Trade and other receivables	-19		48	
- Trade and other payables and accruals	-11		-50	
Total changes in working capital		**-29**		**-**
Changes in deferred tax, provisions, derivatives and other		**1**		**32**
Cash flow from operations		**293**		**251**
Net interest paid and received	-58		-61	
Dividends received from associates and joint ventures	1		5	
Corporate income tax received (paid)	7		-32	
Total		**-50**		**-88**
Cash flow from operating activities		**243**		**163**
Cash flow from investing activities				
Investments in property, plant and equipment	-201		-157	
Investments in associates	-		-9	
Construction contributions received	39		36	
Investments in non-current financial assets	-4		-	
Cash flow from investing activities		**-166**		**-130**
Cash flow from financing activities				
New/repaid other current interest-bearing liabilities and current part of long-term debt	-24		50	
Long-term debt issued	-		3	
Long-term debt repaid	1		-58	
Change in current deposits	30		270	
Interest coupon subordinated perpetual bond	-15		-	
Dividend paid	-80		-54	
Cash flow from financing activities		**-88**		**211**
Net cash flow		**-11**		**244**
Cash and cash equivalents as at the start of the period		501		451
Net cash flow		-11		244
Cash and cash equivalents as at 30 June		**490**		**695**

Consolidated statement of changes in equity

Consolidated statement of changes in equity

€ million

	Equity attributable to shareholders and other providers of equity							
	Share capital	Share premium	Subordinated perpetual bond	Hedge reserve	Revaluation reserve	Other reserves	Profit for the period	Total
Equity as at 1 January 2010	**684**	**671**	**-**	**-8**	**-10**	**596**	**312**	**2,245**
Movement in fair value cash flow hedges	-	-	-	-4	-	-	-	-4
Revaluation of available-for-sale financial assets	-	-	-	-	3	-	-	3
Profit after tax for 2010	-	-	-	-	-	-	222	222
Comprehensive income for 2010	-	-	-	-4	3	-	222	221
Issue of subordinated perpetual bond	-	-	494	-	-	-	-	494
Dividend for 2009	-	-	-	-	-	-	-54	-54
Profit appropriation for 2009	-	-	-	-	-	258	-258	-
Equity as at 31 December 2010	**684**	**671**	**494**	**-12**	**-7**	**854**	**222**	**2,906**
Revaluation of available-for-sale financial assets	-	-	-	-	6	-	-	6
Profit after tax 2011	-	-	-	-	-	-	119	119
Comprehensive income for first half of 2010	-	-	-	-	6	-	119	125
Dividend for 2010	-	-	-	-	-	-	-80	-80
Profit appropriation for 2010	-	-	-	-	-	142	-142	-
Interest coupon subordinated perpetual bond	-	-	-	-	-	-15	-	-15
Tax effect coupon						3		3
Equity as at 30 June 2010	**684**	**671**	**494**	**-12**	**-1**	**984**	**119**	**2,939**

Dividend

The dividend relating to the 2010 financial year (€ 80.4 million) was distributed in May 2011 (€ 0.59 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.

In June 2011, an interest coupon amounting to € 15 million was paid to the holders of this loan, relating to the period November 2010–June 2011. The payment was charged to the other reserves.

Notes to the consolidated half-year figures

General

Alliander N.V. is a public limited liability company, registered in Arnhem, the Netherlands. This half-year report contains the financial information for the first half of 2011 relating to the company and its subsidiaries.

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

Accounting policies

This report applies the same accounting policies as for the 2010 annual report of Alliander N.V., which can be found at www.alliander.com, apart from the following amendments to the standards and interpretations effective from 1 January 2011.

New or amended IFRS standards for 2011

IAS 24 Related Party Disclosures has been amended. Additionally, coming into effect as from 1 January 2011, there have been changes to IFRS 1, IFRIC 14 and IFRIC 19 together with the annual round of amendments in 2010 connected with improvements to IFRS. These changes have not brought about any change in the accounting policies applied by Alliander N.V. There have, however, been changes in the disclosure requirements and these are reflected in this report.

Estimates and assumptions

In preparing this half-year report, Alliander makes use of estimates and assumptions. In particular, this affects the determination of provisions, the estimate of the useful lives of property, plant and equipment, revenue recognition, the measurement of receivables and the measurement of the deferred tax assets.
The estimates and assumptions are mainly based on past experience and Alliander's management's best estimate of the specific circumstances that are, in the opinion of management, applicable in the given situation. Actual developments may differ from the estimates and assumptions used. As a result, the actual outcome may differ significantly from the current measurement of a number of items in the financial statements. The estimates and assumptions used are tested regularly and adjusted if necessary.

Compared with year-end 2010, there have been no changes in the estimates and assumptions used with the exception of the following:
In connection with the developments in the energy sector, such as energy transition, technological and economic progress and tougher safety standards, Alliander has prepared a strategic asset plan setting forth its vision of the future. An important conclusion of this exercise is that Alliander will have to bring forward upgrades to the existing network (replacement investments) in order to satisfy future energy supply and demand requirements. As a consequence, the useful lives of the electricity and gas networks have been reappraised, resulting in shorter useful lives for both the electricity and gas networks with effect from 1 January 2011. This has led to an increase in the depreciation charges and amortised amounts (other income) over the first half of 2011, by € 19 million and € 7 million, respectively, producing a fall of € 12 million overall in the operating profit for the first half of 2011.

Segment information

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

Reconciliation segment operating profits and consolidated profit

€ million

	1st half	
	2011	2010
Consolidated segment operating profits excluding incidental items	**190**	**148**
Incidental items and fair value movements	9	-19
Financial income and expense	-55	-49
Share in results from associates and joint ventures	4	3
Consolidated profit before tax	**148**	**83**

Primary segmentation 1st half

€ million	Grid Manager Liander		Network Company Endinet		Other		Eliminations		Total	
Income statement	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Operating income										
External income	696	649	54	-	66	81	-	-	816	730
Internal income	5	4	-	-	133	125	-138	-129	-	-
Total operating income	**701**	**653**	**54**	**-**	**199**	**206**	**-138**	**-129**	**816**	**730**
Total operating expenses	**523**	**484**	**40**	**-**	**201**	**227**	**-138**	**-129**	**626**	**582**
Operating profit	**178**	**169**	**14**	**-**	**-2**	**-21**	**-**	**-**	**190**	**148**
Segment assets	**30/06/2011**	31/12/2010	**30/06/2011**	31/12/2010	**30/06/2011**	31/12/2010	**30/06/2011**	31/12/2010	**30/06/2011**	31/12/2010
Total assets	**5,725**	**5,698**	**534**	**598**	**3,977**	**3,707**	**-2,854**	**-2,603**	**7,382**	**7,400**

Seasonal influences

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

Acquisition of Endinet and Stam in 2010

The acquisitions of Endinet and Stam were completed with effect from 1 July 2010 and 16 March 2010, respectively. If the two companies had been taken over with effect from 1 January 2010, Alliander's revenue for the first half of 2010 would have amounted to € 741 million, with a net profit of € 61 million.

Cross-border lease contracts

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

The total net carrying amount of the assets forming the object of cross-border leases, as at mid-2011, amounted to approximately € 1.2 billion (the same as at year-end 2010). At the end of June 2011, a total of $ 3.8 billion (year-end 2010: $ 3.8 billion) was held on deposit with several financial institutions or invested in securities in connection with these transactions. Since no powers of disposal exist over the majority of the assets concerned and associated liabilities, they are not regarded as assets and liabilities of Alliander and the respective amounts are not recognised in the consolidated financial statements of Alliander. The assets over which Alliander has powers of disposal are recognised in the financial assets. The associated lease payment obligations are recognised in finance lease liabilities.

At the end of June 2011, 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 $ 592 million (year-end 2010: $ 601 million). To cover the equity part of the strip risk, amounting to $ 452 million at the end of June 2011 (year-end 2010: $ 465 million), Alliander has provided the investors involved with security in the form of letters of credit for an amount of $160 million (year-end 2010: $ 222 million) in various transactions. The number and size of the letters of credit to be issued depends partly on Alliander's credit rating.

Other

Existing financial commitments relating to property, plant and equipment not shown on the face of the balance sheet as at 30 June 2011 amounted to € 75 million (year-end 2010: € 56 million).

Compared with the situation as at year-end 2010, there have been no material changes in the contingent assets and liabilities. Within the fair value hierarchy of our financial instruments measured at fair value there have been no transfers between the levels.

Events after balance sheet date

On 5 July 2011, the Reddyn joint venture agreement was signed by its two shareholders Liander and TenneT. Reddyn is the joint service provider to TenneT and Liander for construction, management, maintenance and fault repair services relating to high-voltage and complex medium-voltage installations. The two grid managers each have a 50% interest in the company. Reddyn performs activities exclusively for TenneT and Liander and makes use of Liandon personnel to carry out the work.

On 15 July 2011, the RCF was extended from June 2015 to 15 July 2016 with the option of two further renewals, each extending the facility for 12 months.

Auditors' review report

Auditors' review report

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

Introduction

We have reviewed the 2011 condensed consolidated half-year financial statements of Alliander N.V., Arnhem, comprising the balance sheet as at 30 June 2011, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the period 1 January 2011 to 30 June 2011 and the related notes. The company's Management Board is responsible for the preparation and presentation of the 2011 condensed consolidated half-year financial statements in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union. Our responsibility is to express a conclusion on the 2011 condensed consolidated half-year financial statements based on our review.

Scope

We conducted our review of the 2011 condensed consolidated half-year financial statements in accordance with Dutch law, including Standard 2410 The Review of Interim Financial Information by an Entity's Independent Auditors. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Dutch auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated half-year financial statements for the period 1 January 2011 to 30 June 2011 are not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union.

Rotterdam, 18 August 2011
PricewaterhouseCoopers Accountants N.V.

Originally signed by
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Colophon

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