Alliander N.V. Results 2018

20 February 2019

Credit profile Alliander

Leading network company in NL	• Largest regional energy network company in the Netherlands • 3.2 million electricity and 2.5 million gas connections • Natural monopoly status in its license areas
Stable public shareholders	• Strong and stable shareholder base with 100% of the shares held by provinces and local municipalities • Geographically, network coverage regions largely coincide with the shareholders' base • Privatization not allowed by law
Mature and constructive regulatory regime	• Low risk profile due to stable and proven regulatory environment • Well defined, mature and constructive regulation with 5 year regulatory period • Total cost recovery for the industry is one of the basic regulatory principles • Current regulatory period provides high degree of cash flow predictability for the next 3 years
Stable cash flow profile	• Over 85% regulated revenue from regional electricity and gas distribution • Remaining revenue largely related to services offered to customers with regulated network activities
Robust capital structure	• Strong financial profile with well-defined and disciplined financial policy • Financial ratios well financial policy framework • Proven commitment to stay within financial policy framework • Strong liquidity position with significant volume of undrawn facilities available • Recently affirmed ratings of Aa2/P-1/stable outlook by Moody's and AA-/A-1+/stable outlook by S&P
Operational expertise	• High quality assets; reliable grid with relative low annual outage duration in the European context • Focused capex program will ensure grid quality is maintained • Smart meter offering on schedule
Sustainability leadership	• Highest Oekom rating amongst utility peer group at Prime B+ (31-dec-18)

Highlights 2018: solid financials, operational challenges

Financial

- Profit after tax increased to €334m (2017: €203m) including incidental item of €105m from book profit on the sale of Allego; Profit after tax excluding incidental items and fair value movements rose by €55m compared to 2017
- Revenue increased to €1,920m (2017: €1,797m)
- Operational expenses slightly higher at €1,572m (2017: €1,535m)
- Gross investment up to €731m (2017: €666m). Net investment amount to €605m. (2017: €570m) due to third party contributions
- Refinancing of €500m perpetual subordinated bond loan at 1.625% (jan/feb 2018)

Strategic

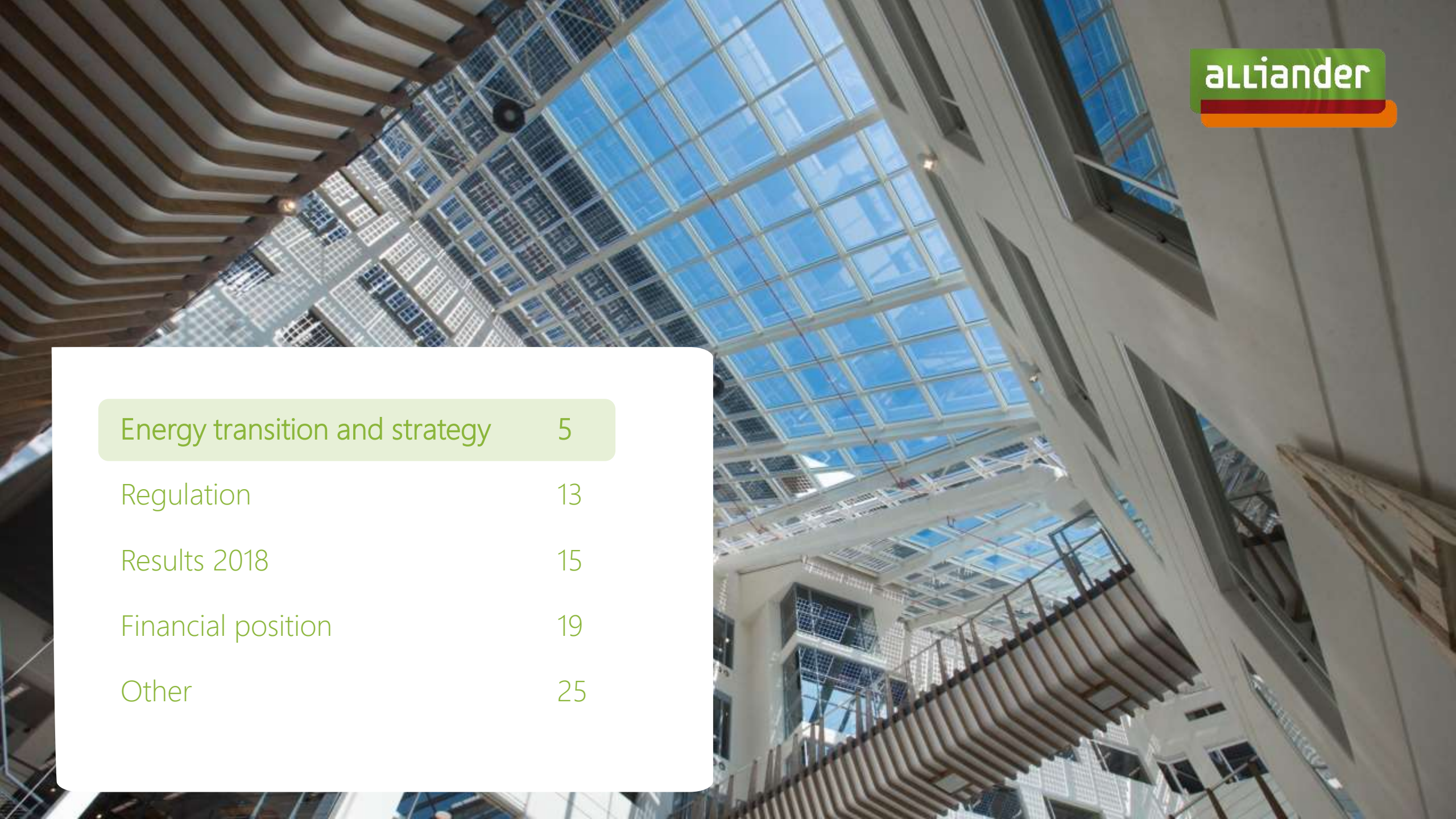
- Sale of Allego completed
- More focus on feasibility of the workload, energy transition portfolio, heat transition and cost-conscious and efficient working

Regulatory

- Proposed Energy Transition Bill (VEt) came into effect as of 1 July 2018 and is implemented in phases
- Financial impact of VEt for Alliander assessed as neutral
- Planned Dutch Climate Agreement aims for 49% CO_2 reduction by 2030.
- ACM presented new method decisions after existing method decisions were annulled by the Trade and Industry Appeals Tribunal (CBb). New regulated WACC is expected to have neutral overall effect on regulated revenue

Operational

- Execution was weighed down due to higher demand for connections to, and capacity of, the electricity grid and the shortage of qualified engineers across the Netherlands.
- Smart meter offering on schedule
- Increase in electricity outage duration to 30.6 minutes in past 12 months (2017: 20.9) due to several major disruptions



Dutch Climate Agreement

Climate Law: secures Dutch ambitions in the long term

- 2018 — Climate Law presented by 7 political parties: VVD, CDA, D66, ChristenUnie, GroenLinks, PvdA and SP
- 2030 — CO_2 emissions 49% lower compared to 1990
- 2055 — CO_2 emissions 95% lower compared to 1990. All electricity is CO_2 neutrally generated

Every 4th Thursday in October is National Climate Day, including a Climate Memorandum

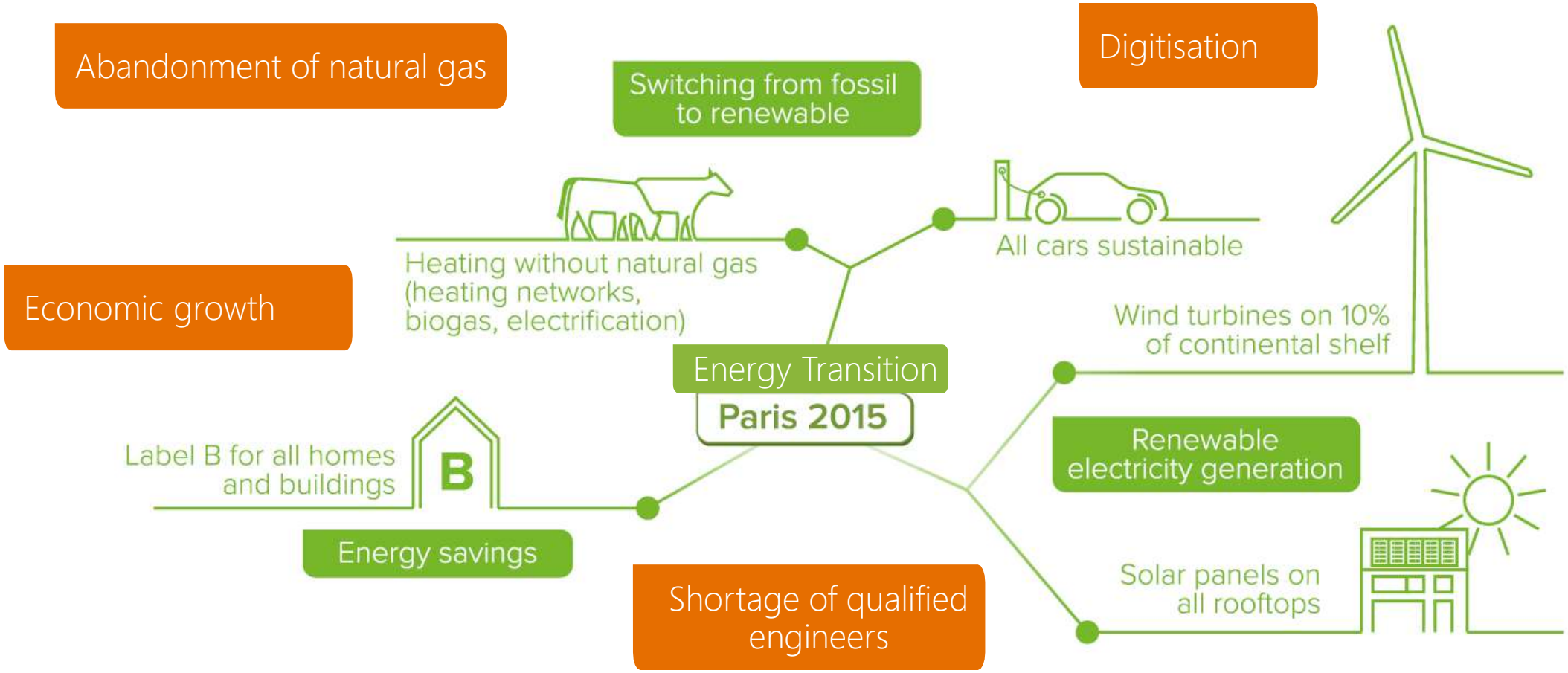
Planning Climate Agreement

- 10 July 2018 — Climate Agreement outlined
- Sep/Oct 2018 — Impact calculation by PBL and CPB
- Dec 2018 — Final wording Climate Agreement
- Feb/May 2019 — Definitive impact calculations PBL and CPB
- Q2 2019 — Signing
- 2019 - — Implementation

Planning

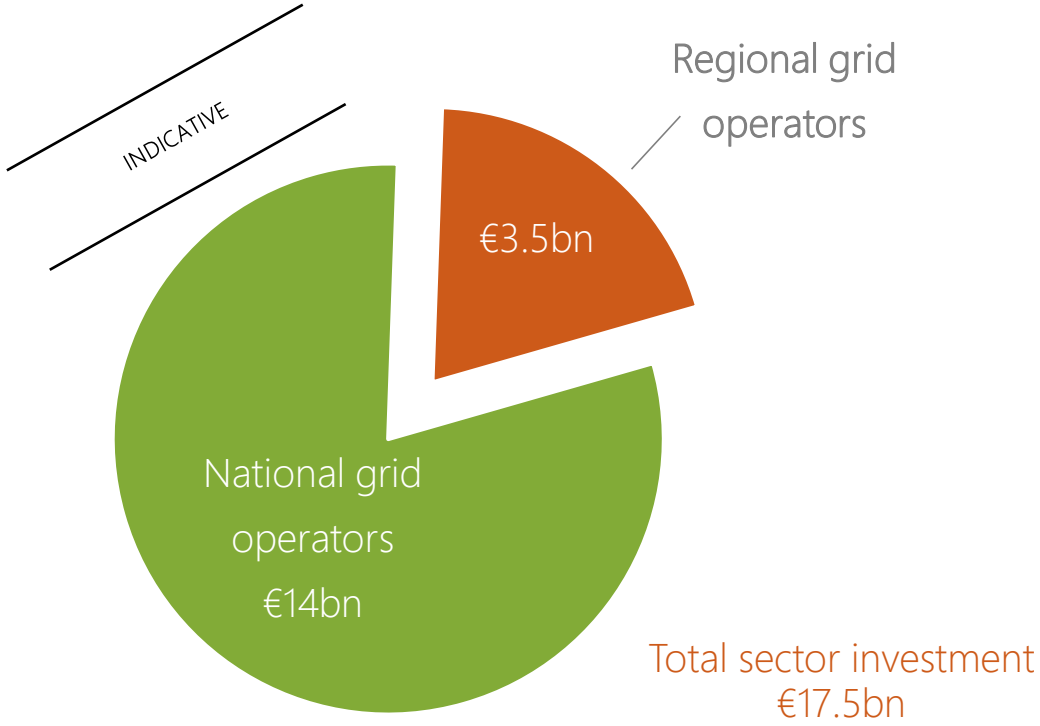
Note: A majority in the European Parliament has indicated that it wants to strive towards a CO2 reduction of 55% by 2030, if this is implemented at European level, it will most likely have consequences for the Dutch Climate Agreement

Realisation Climate agreement targets impacts our networks



Impact Climate Agreement on investment grid operators

Sector investment in additional electricity grid infrastructure in the Netherlands



2030 – 49% scenario

Impact on grid operators

Impact on investment

- Estimation of the additional investment (excluding replacements and maintenance) in electricity grid infrastructure is **about €1.3bn for Liander.**

Impact on FTE's

- Due to the acceleration of the energy transition the amount of work to be done is increasing, at the same time the current shortages of technical personnel are increasing.
- The first prognosis is that the shortage will rise to 2030.
- Taking the Climate Agreement into consideration, **the shortage of qualified engineers in the sector runs up to 2,000 – 3,000 FTE**

Impact on energy connections and grid load

- **The Dutch Climate Agreement will lead to a large increase in new connections especially due to solar and wind power and charging stations for electric cars** in the public space.
- Sustainability will lead to higher grid loads on current energy connections.
- Electrification of greenhouse horticulture (agriculture) has a major impact on the local net balance.
- Electrification of the industrial sector and the construction of data centers has potentially great impact on regional grid operators. A large part of the electrification of the industrial sector is expected to have an impact on the national grid operator TenneT.

Alliander mission and strategy

Alliander stands for an energy supply that gives everyone equal access to reliable, affordable and renewable energy.

Helping customers make choices that are right for them and the overall energy system

Investing in new, open grids

Digitisation of grids

Top-class grid management

Focus on a number of aspects in the coming years

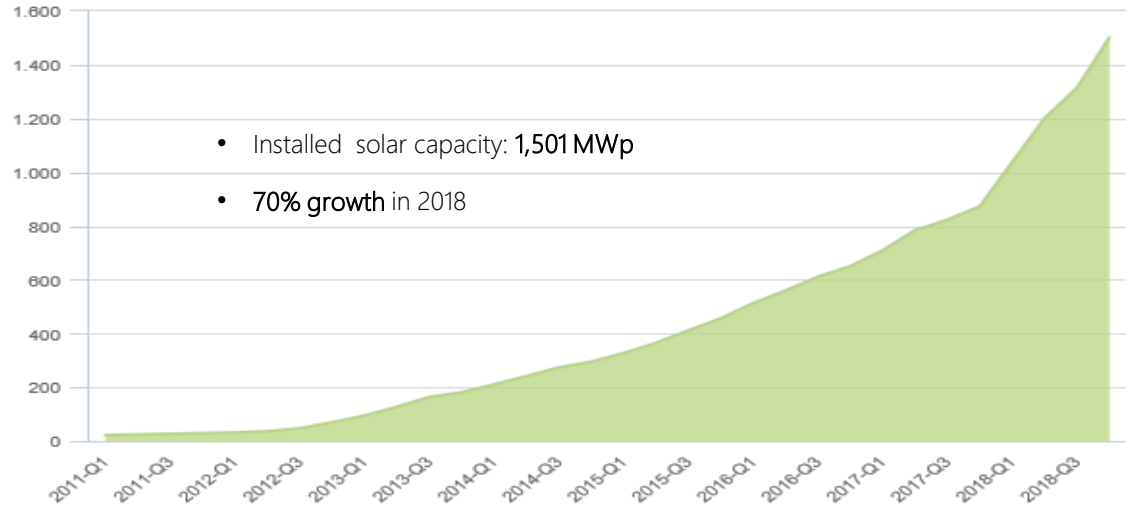
Feasibility of workload	Prioritize, increase capacity, more efficiency
Energy transition portfolio	Realise innovations and smart solutions and applying them in practice + alternative (sustainable) uses of our gas grids
Heat transition	Cooperate with municipalities to ensure a successful heat transition + install heat grids
Cost-conscious and efficient working	Cost savings to enable future increasing investments

& using knowledge and tools for the benefit of customers and other network operators

Energy transition in our service areas

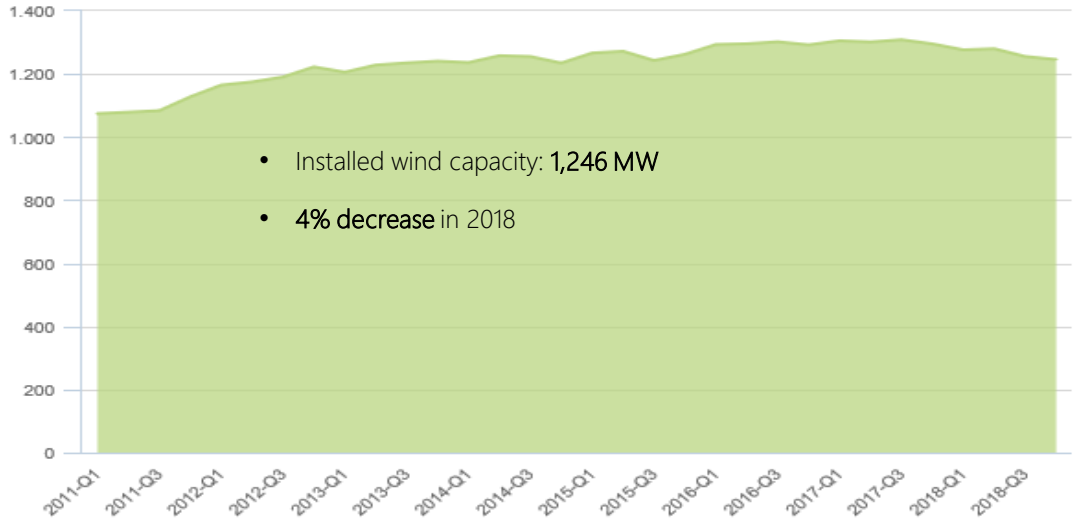
Local electricity feed in: capacity growth

Installed solar capacity



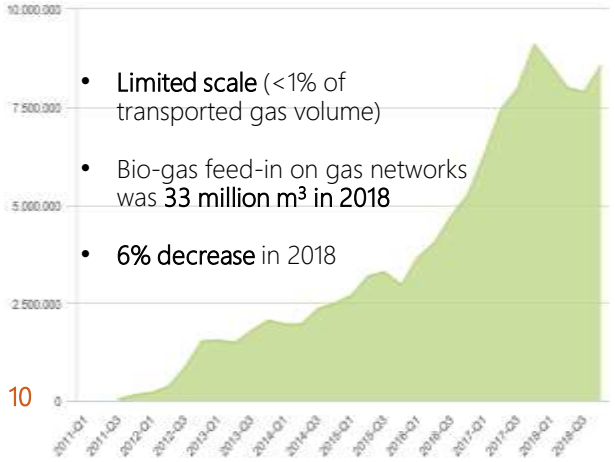
- Installed solar capacity: **1,501 MWp**
- **70% growth** in 2018

Installed wind capacity



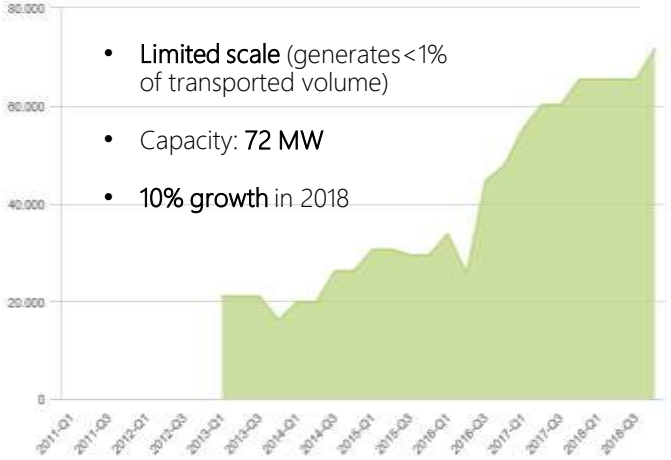
- Installed wind capacity: **1,246 MW**
- **4% decrease** in 2018

Biogas feed in on our networks



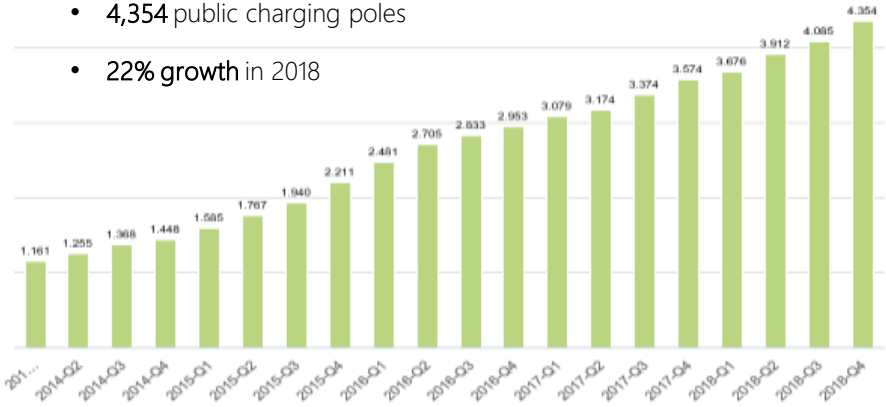
- **Limited scale** (<1% of transported gas volume)
- Bio-gas feed-in on gas networks was **33 million m³ in 2018**
- **6% decrease** in 2018

Contract capacity biogas



- **Limited scale** (generates <1% of transported volume)
- Capacity: **72 MW**
- **10% growth** in 2018

Number of charging poles



- **4,354** public charging poles
- **22% growth** in 2018

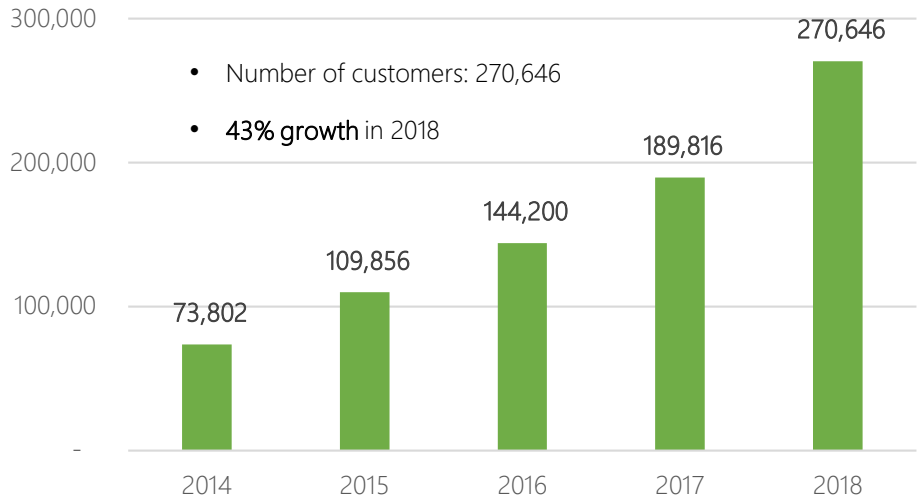
Total transported volumes in our service areas (2018)

Electricity	29,858 GWh per year (=81,803 MWh per day)
Gas	6,090 million m³ per year

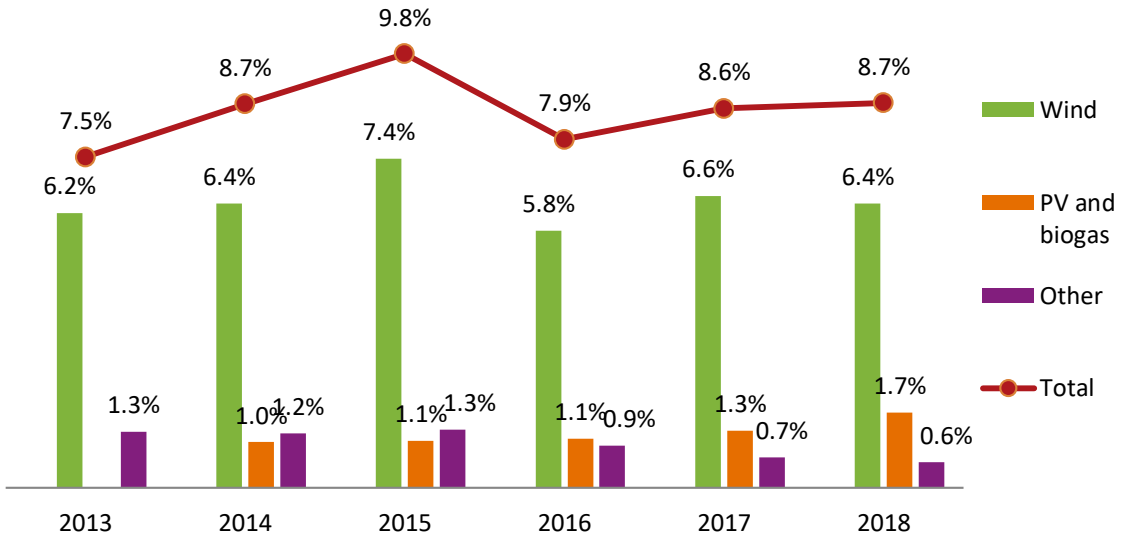
Energy transition in our service areas

Local electricity feed-in: number of customers and energy source

Customers with renewable generation

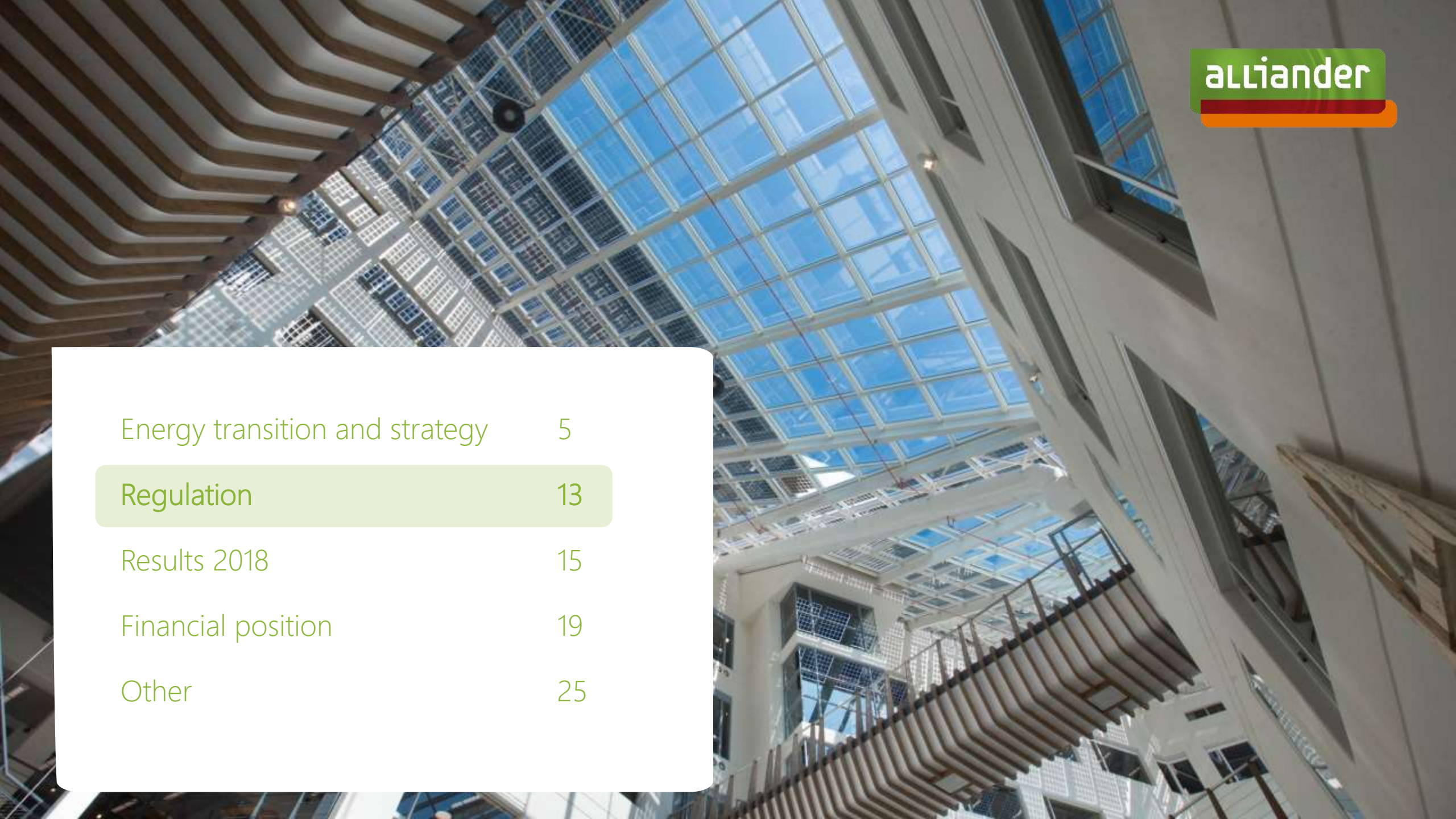


Breakdown of local renewable electricity feed-in



- 270,646 customers have a registered connection with an active feed-in installation in our service areas
- Number of customers increased by 43% in 2018
- The large increase is due to decreasing PV panel prices, a recovering economy and a favorable subsidy regime

- About 9% of the total transported electricity volume in our service areas is locally generated renewable energy
- Main contributor is wind which accounts for 3/4 of all locally produced electricity. Its contribution varies per year depending on the weather conditions
- Contribution of PV and biogas generated electricity is relatively small but shows rapid growth
- Numbers include only electricity generated by businesses and not by consumer households.

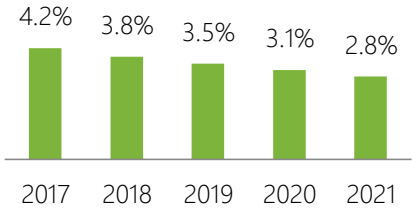


Regulatory framework

Price control period

- Current 5-year price-control period runs from 2017-2021
- Gradually decreasing real WACC
- Allowed revenues have been set at the efficient level at the start of the current period
- Benchmark on average sector cost. In the long run the sector as a whole is able to cover its total cost including capital cost
- ACM presented new method decisions after existing method decisions were annulled by the Trade and Industry Appeals Tribunal (CBb). New regulated WACC is expected to have neutral overall effect on regulated revenue

Regulated real WACC



Legislation

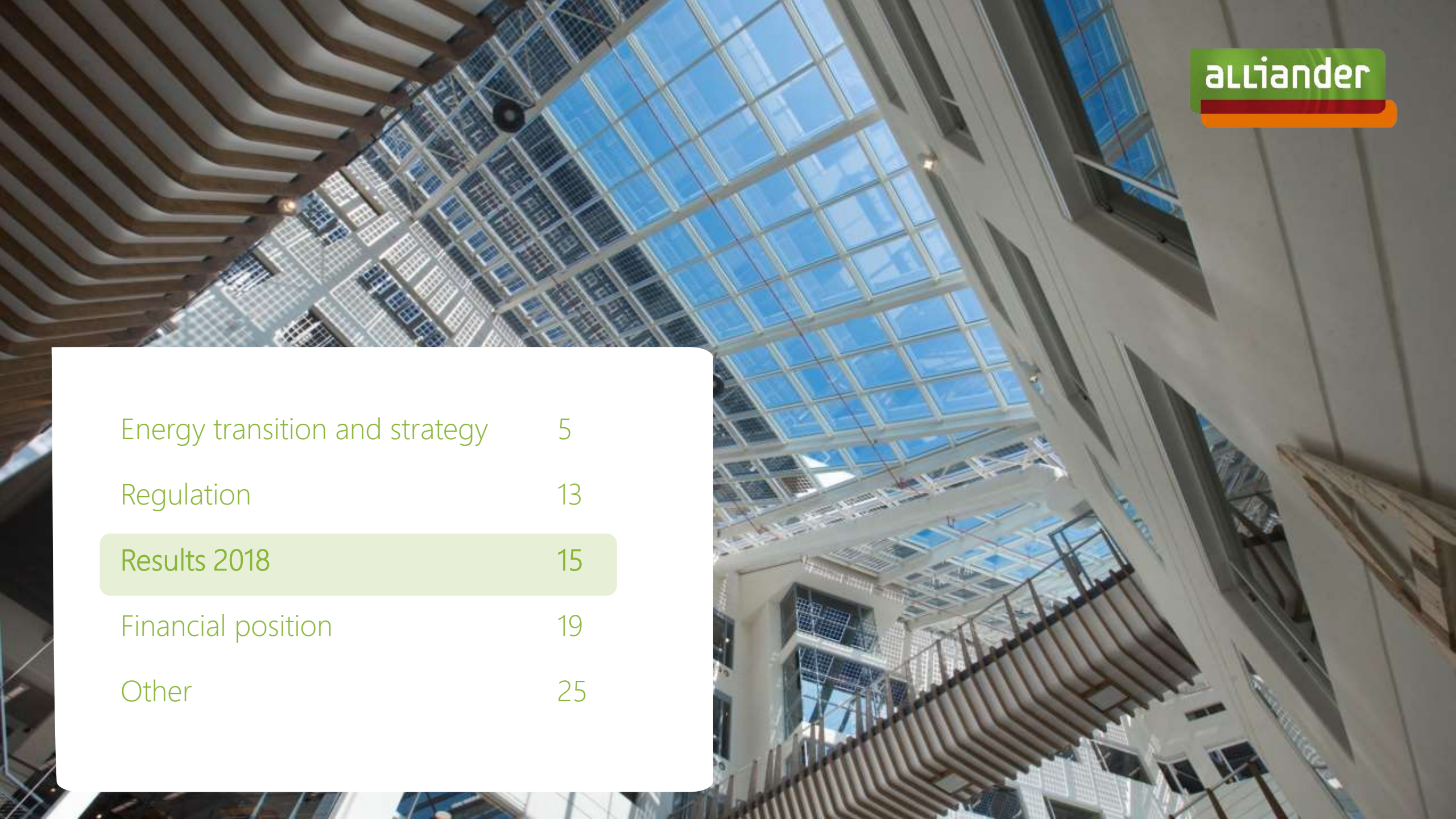
- Streamlining of the existing Electricity and Gas Acts
- Proposed Energy Transition Bill (VEt) came into effect as of 1 July 2018 and is implemented in phases
- Financial impact of VEt for Alliander assessed as neutral

Sufferance tax

- Sufferance tax will be phased out. A transitional period will be observed, allowing municipalities to levy sufferance tax up to 2022
- The sufferance costs will be fully recovered in tariffs, partly in advance and partly afterwards

Limitation on mandatory provision of gas connection

- As of 1 July 2018 municipalities are allowed to designate urban areas were no gas network will be installed if provisions are made for district heating or other heat supplies
- In the coming period, the Climate Agreement will include agreements on the energy transition, whereby the network operator must continue to be able to recover the costs incurred.



Higher net profit due to increased revenue and the book profit on the sale of Allego

Consolidated profit and loss statement

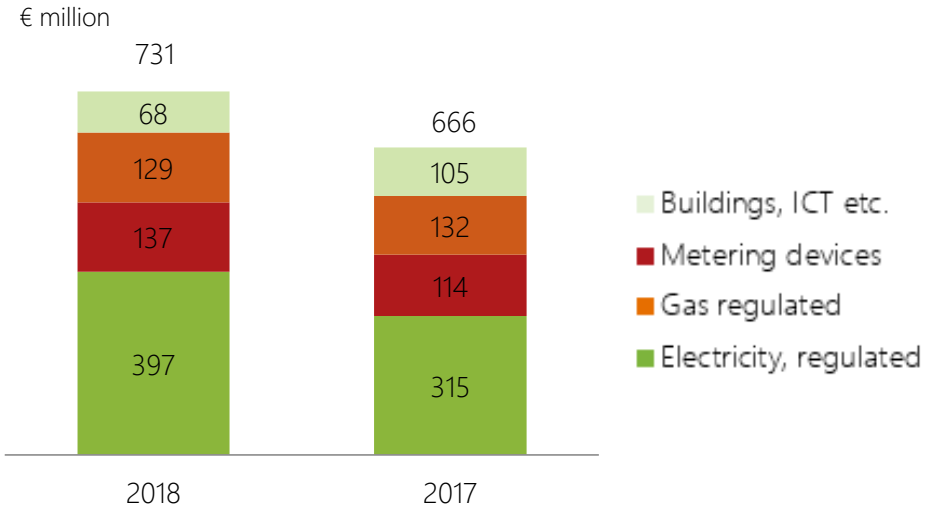
€ million	Reported	
	2018	2017
Revenue	1,920	1,797
Other income	148	43
Total purchase costs, costs of subcontracted work and operating expenses	-1,404	-1,367
Depreciation and impairments	-409	-396
Own work capitalised	241	228
Operating profit (EBIT)	496	305
Finance income/(expense)	-46	-43
Result from associates and joint ventures	3	9
Profit before tax	453	271
Tax	-119	-68
Profit after tax from continuing operations	334	203
Profit after tax from discontinued operations	-	-
Profit after tax	**334**	**203**

- Net turnover increased by €123m compared to the previous financial year[1] to €1,920m . This increase is mainly due to higher regulated tariffs for gas and electricity (€93m) and the growth in the number of connections for electricity (€12m)
- Reported operating expenses (excluding fair value mutations) were €37m higher compared to 2017 (€1,535m) due to, among others, sufferance taxes (+ €17m) and costs of hiring contractors and material consumption (+ €26m) compensated by, among others, lower external personnel costs (- €14m).
- The taxes in 2018 are €51m higher compared to 2017 (€68m). This is mainly caused by the change in corporate tax rate. The book profit on the sale of Allego is free from tax.
- The reported net income after tax increased by €131m compared to 2017 (€203m) mainly due to the previously mentioned higher revenue and the book profit on the sale of Allego.
- At June 1st 2018 Alliander sold its subsidiary Allego to Meridiam which has led to a book profit in 2018 of €105m. Allego develops charging solutions and charging infrastructure.

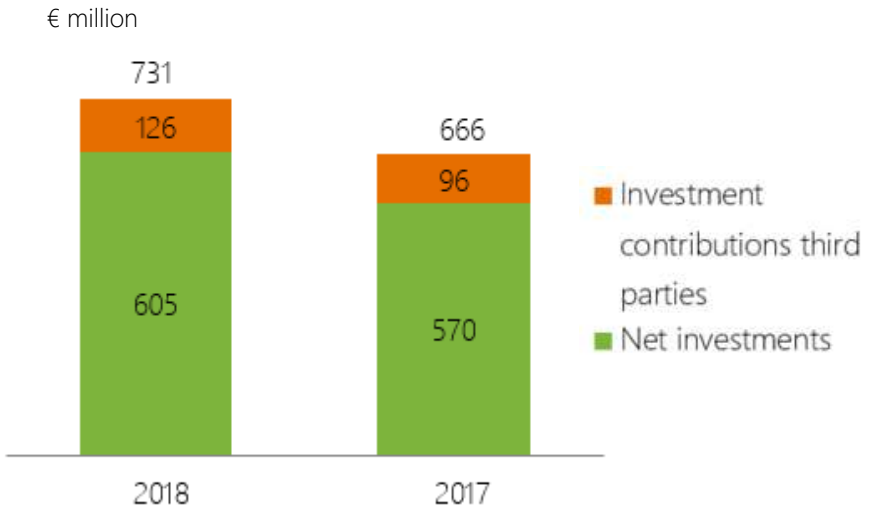
Note : [1] The reported revenue of 2017 is, as a result of the implementation of IFRS 15, adjusted in order to compare to the reported revenue of 2018.

Higher investments in electricity grids and smart meters

Gross investment in PPE



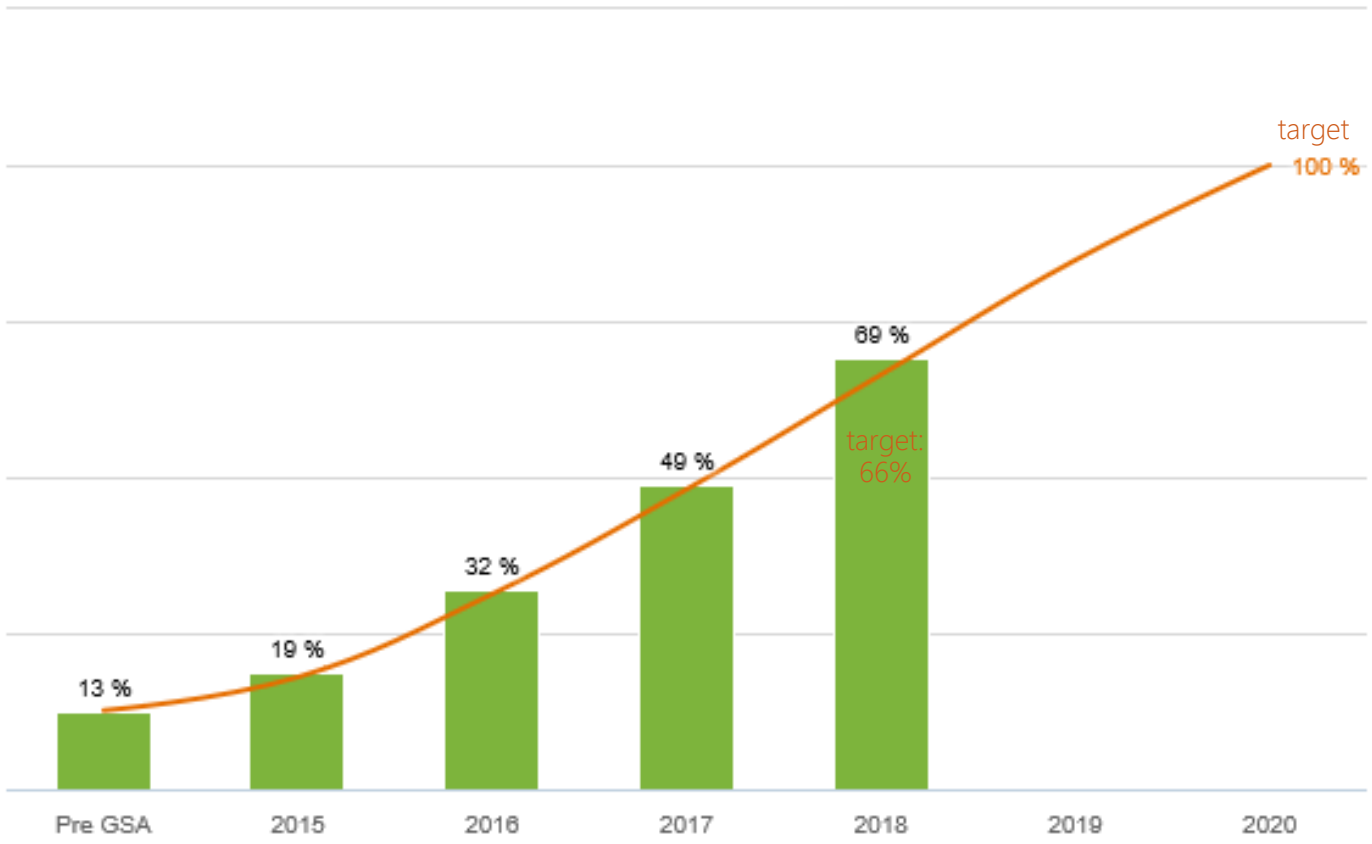
Third part contributions and net investments



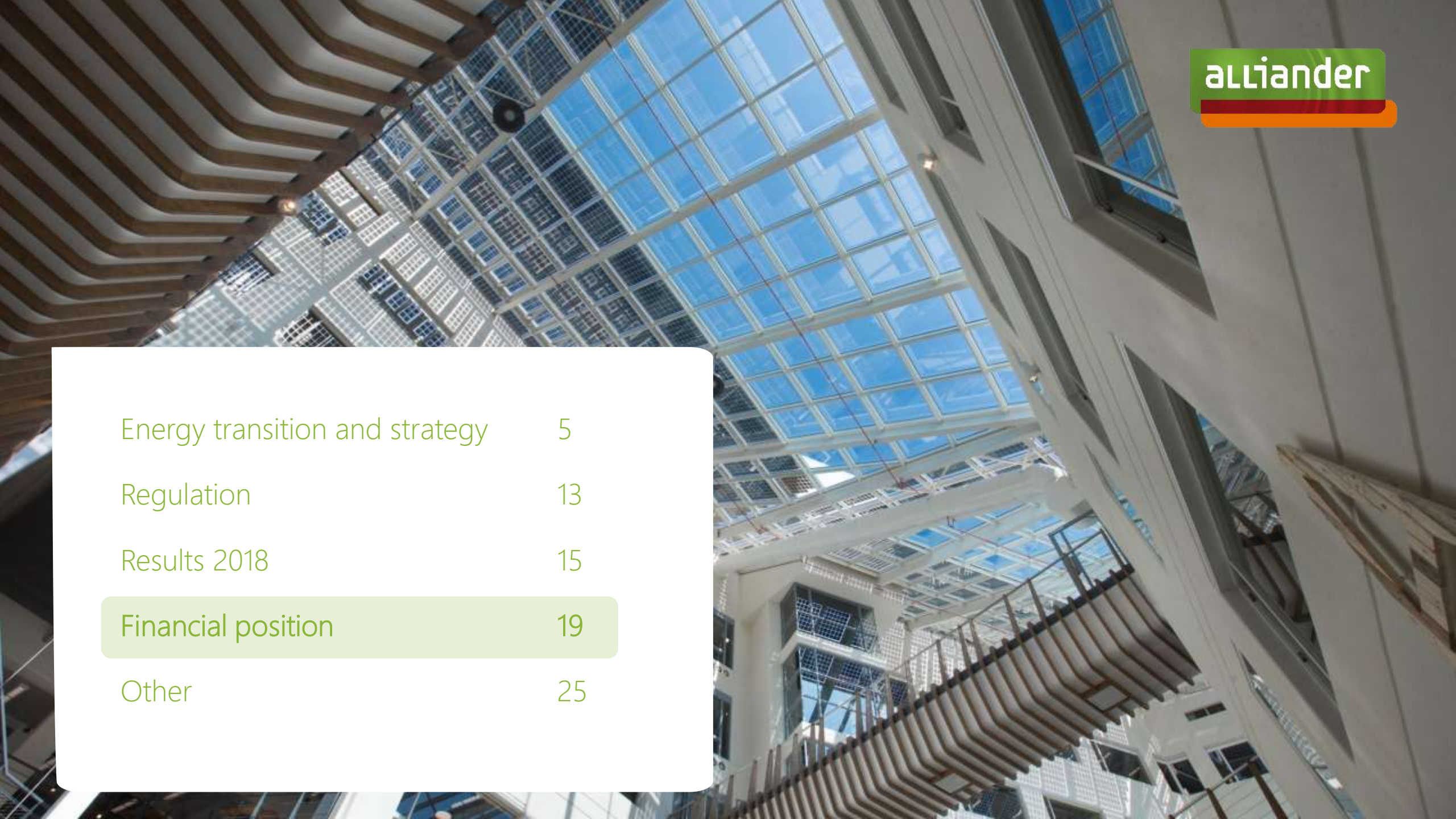
- Gross investments € 65m higher than in 2017.
- Investment level higher due to increase in investments in our electricity grid (+€82m) and the distribution of smart meters (+€23m) partly mitigated through lower investment in buildings (-€37m)
- The difference of €126m between gross- and net investments is caused by third party contributions (2017: €96m)

Smart meter offering is on schedule

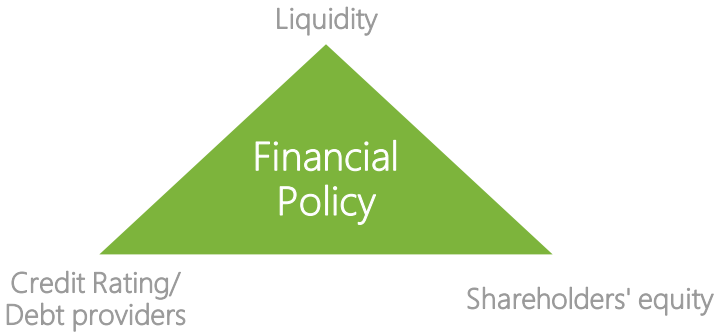
Progress large scale offering of smart meter



- By the end of 2020 the smart meter has to be offered to all of our 3.2 million customers
- In 2018 according to plan the smart meter has been offered to about 20% of our customers (=640,000)
- Intermediate position at the end of 2018 is that 69% of our customers have been offered a smart meter. The target for 2018 was 66%
- Total CAPEX for smart meters in the period 2008-2020 amounts to approximately € 800 million.



Alliander's Financial Policy



Financial Framework

- FFO/Net debt: Minimum 20%
- FFO Interest cover: Minimum 3.5
- Net debt/capitalization: Maximum 60%
- Solid A rating profile (on stand alone basis)
- Comply with regulatory criteria for the network operators (investment grade)

Dividend Policy

- Stable dividend
- Pay-out: 45% of after-tax profit, adjusted for incidental items, unless CAPEX from regulatory obligations or financial criteria require higher retained earnings
- Minimum solvency of 30%

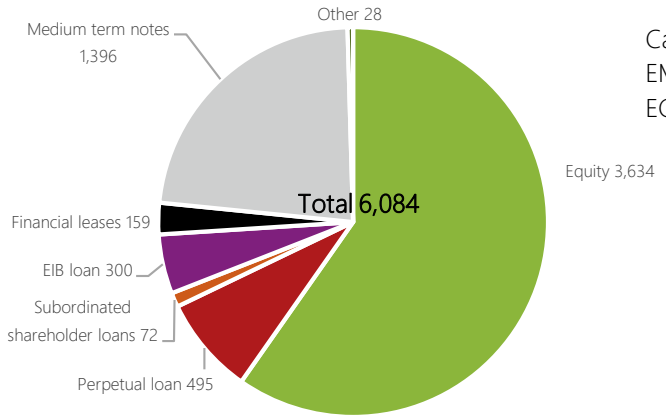
General Principles

- Part of overall policy and strategy
- Balance between protection of debt providers' and shareholder returns
- Financial strength and discipline
- Maintain cushion relative to regulatory criteria
- Flexibility to grow and invest
- Transparent reporting
- No structural subordination

Financial position

in € million

Capitalisation



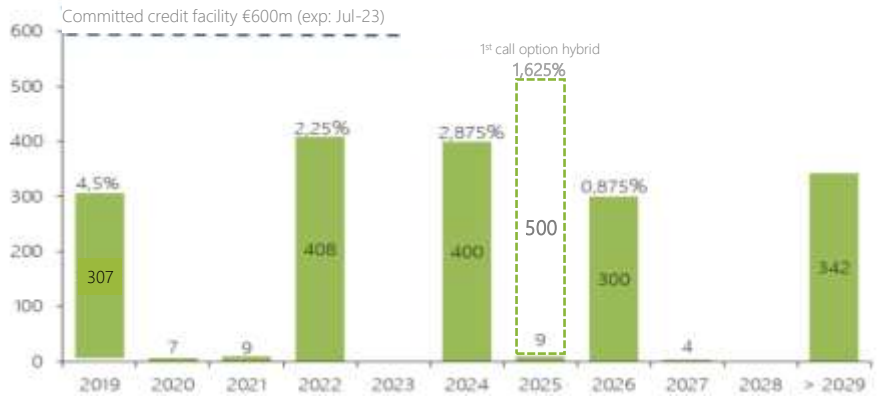
Capital Market Programs
EMTN 3,000 million
ECP 1,500 million

Backup credit facility
RCF 600 million

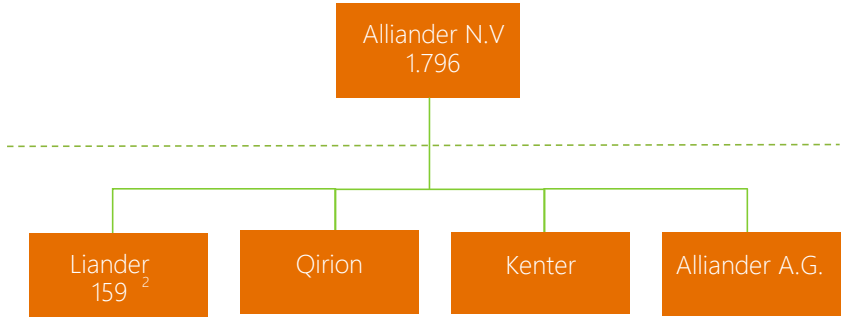
Gross and net debt

Gross debt (including CBL related financial lease obligation)		1,955
Cash	140	
CBL investments	156	
Total cash and investments		296
Net debt according to IFRS		1.659
50% of the perpetual loan		248
Net debt according to financial policy		1.907

Maturity profile [1]



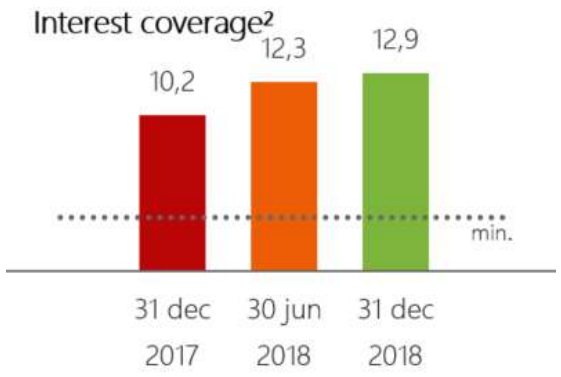
Location of debt

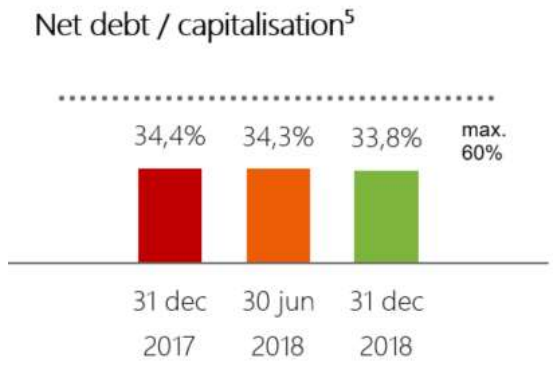


1 Exclusief € 159m financiële lease verplichtingen

2 Financial lease obligations

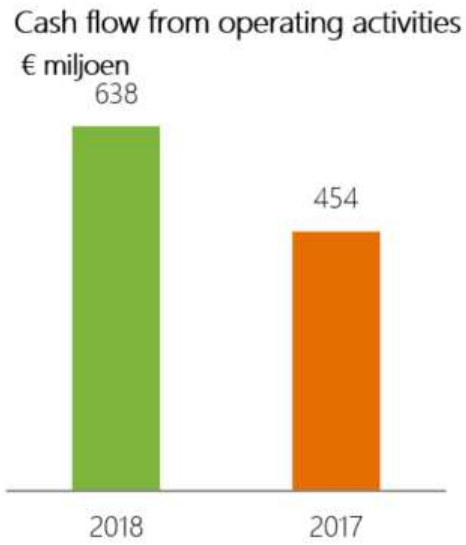
Financial ratio's well within financial policy framework[1]

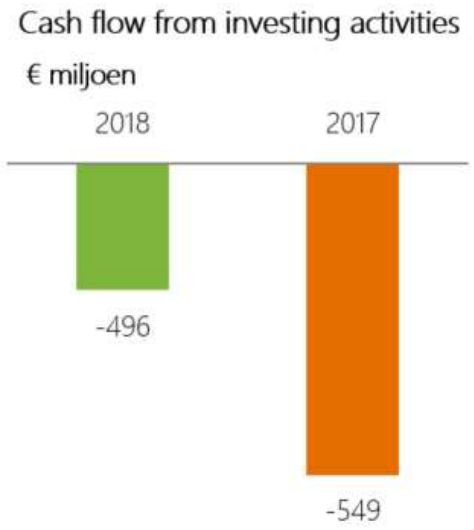


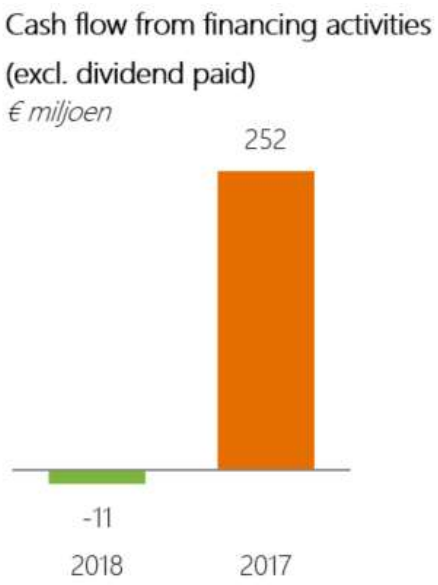


1) Ratios based on figures with 'held for sale'-classification (IFRS 5) not taken into account. According to the principles of Alliander's financial policy the subordinated perpetual bond loan is treated as 50% equity.
2) Interest cover: 12-months profit after taxation adjusted for deferred tax asset movements and incidental items and fair value movements plus depreciation and net finance income and expenses, divided by net finance income and expenses adjusted for incidental items and fair value movements.
3) Funds From Operations: 12-months profit after taxation adjusted for deferred tax asset movements and incidental items and fair value movements plus depreciation of PP&E, intangible assets and deferred income.
4) Solvency: equity including period result less the expected dividend distribution of current financial year divided by balance sheet total less the expected dividend distribution for the current year and deferred income.
5) Net debt/capitalisation: net debt divided by the sum of net debt and equity .

Lower financing need as a result of the sale of Allego







- The cash flow from operating activities is €184m higher compared to 2017. This is partly due to higher operating results (€123m) as a result of an increase in the regulated tariffs and number of electricity-connections.
- The cash flow from investment activities is €53m lower compared to 2017 due to the sale of Allego in 2018 (€110m)
- The dividend paid in 2018 was €12m lower compared to 2017 due to a lower net result over 2017
- The cash flow from financing activities (excluding dividend paid) was almost zero as €224m in ECP was repaid and refinanced by drawing €225m under the EIB loan (now fully drawn, repayment in 2031). Over the year, the refinancing of the perpetual subordinated bond loan was neutral in cash terms.
- On balance, €39mln was added to cash.

Strong corporate credit ratings

Issuer	Aa2/Stable
Short-Term	P-1
Basket C Hybrid	A2

Rationale

- Alliander's credit profile is supported by (1) its low business risk profile as the monopoly provider of electricity and gas distribution network services in its service area; (2) stable and predictable cash flows, generated under a well-established and transparent regulatory framework; and (3) its strong financial profile, with modest leverage compared to European peers

- Alliander's Aa2 rating incorporates two-notches of uplift from its stand-alone credit quality, reflecting the strong probability of extraordinary support being provided by its owners the largest of which is the Province of Gelderland with a 45% shareholding, if this was ever needed

- Despite decreasing allowed returns in the current regulatory period to 2021, Moody's expect Alliander to maintain a strong financial profile over the medium term, supported by (1) a moderate distribution policy; and (2) manageable investment requirements

Corporate	AA-/Stable
Short-Term	A-1+
Junior Subordinated	A

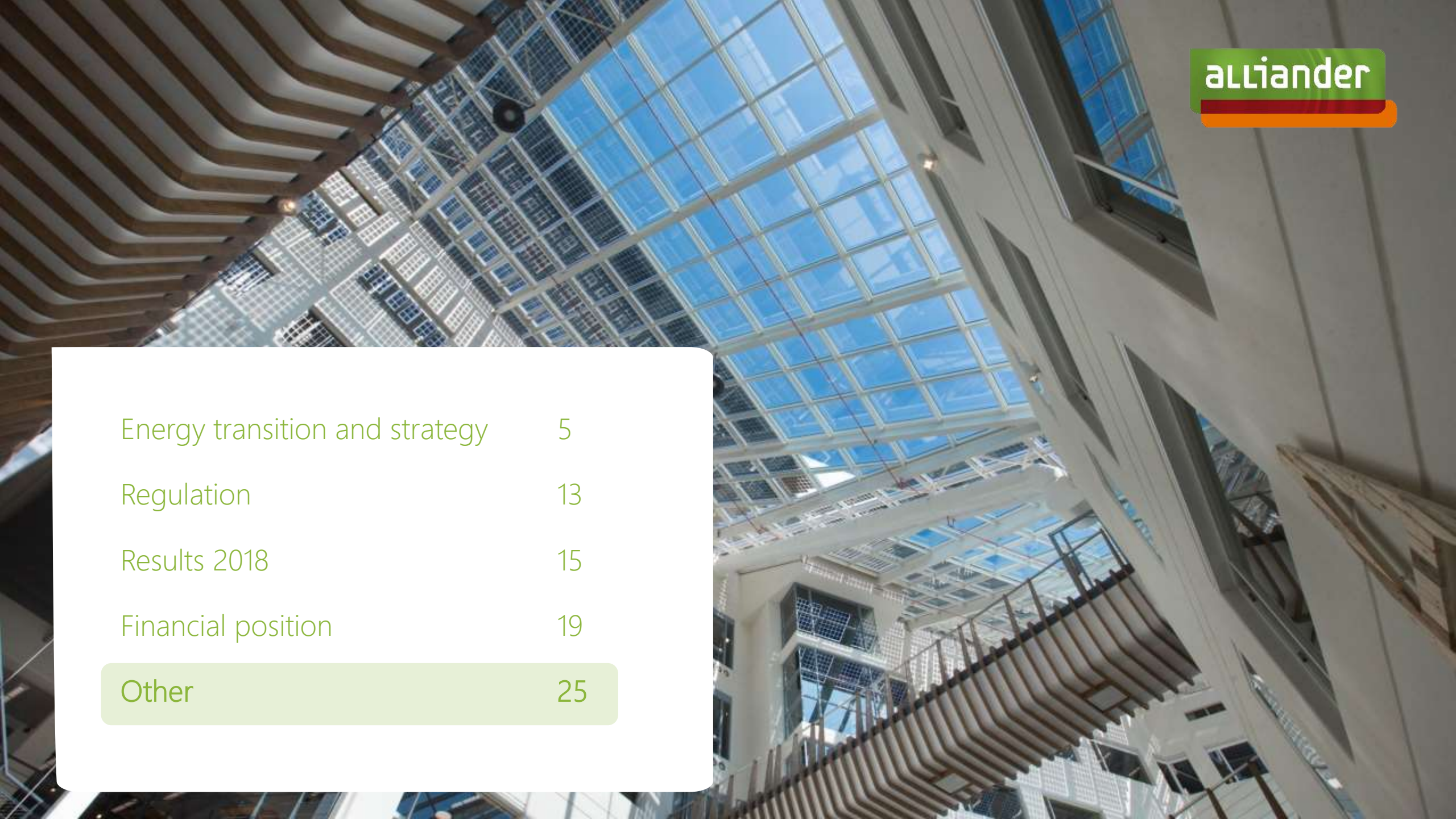
Rationale

- Alliander has a sound operating performance in a supportive Dutch regulatory framework. In addition to the benefits from a low-risk, regulated operating environment for gas and electricity network businesses, Alliander's high-quality assets, and its strong operating performance enhance its business position. S&P Global Ratings believes these factors will continue enabling the company to generate stable and predictable revenues over the foreseeable future.

- The Dutch regulatory framework has a high degree of regulatory stability because it provides well-developed tariff-setting procedures, and we see low risk of political interference

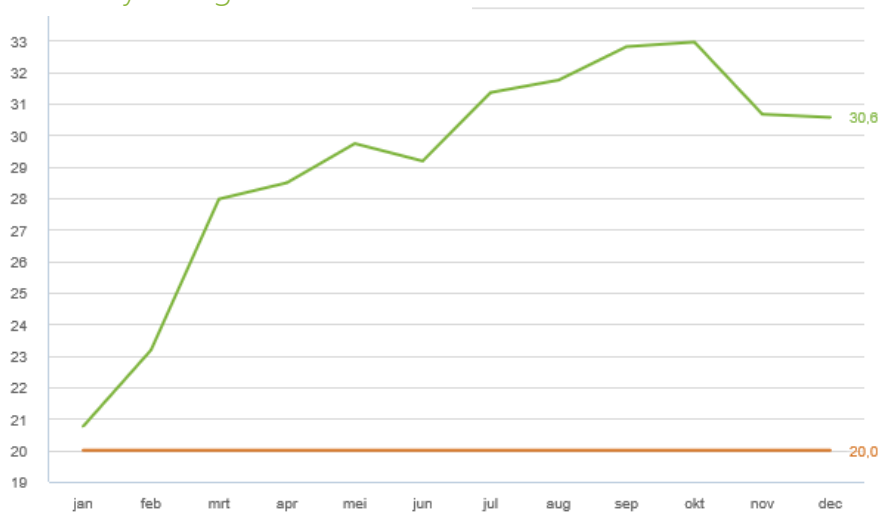
- The stable outlook reflects S&P's expectation that, despite incremental debt and a scheduled decline in regulatory WACC, Alliander will post a FFO-to-debt ratio comfortably above 25% over the next 24 months, thanks to higher sufferance tax compensation and cost-cutting initiatives. S&P also believes that investments related to the energy transition in the Netherlands will support improvements of Alliander's regulated asset base

Source: Moody's Investors Service 12 December 2018. Standard and Poor's 21 December 2018.



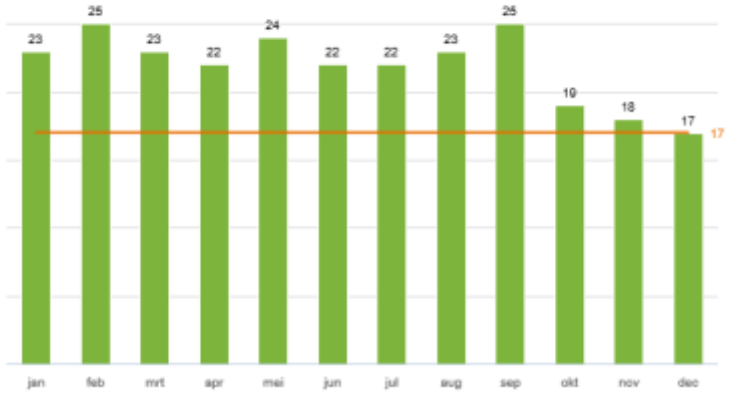
Operational performance

Electricity outage duration

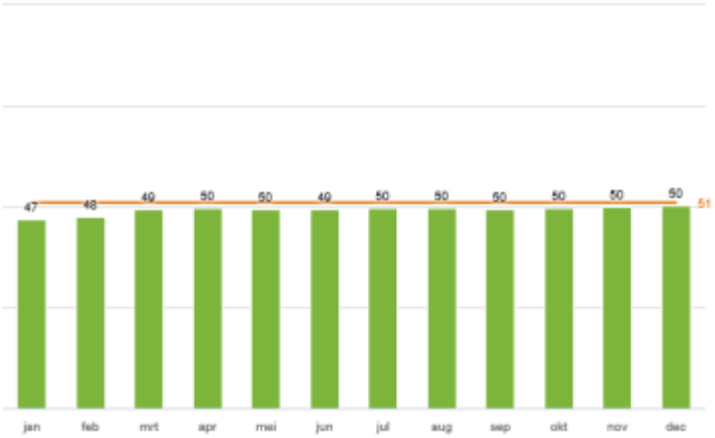


Safety – LTIF

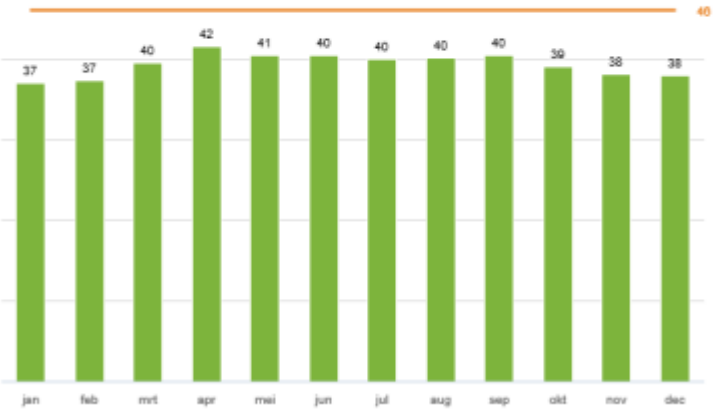
Number of unique cable numbers with more than 5 interruptions per year



Net Effort Score – Consumer market

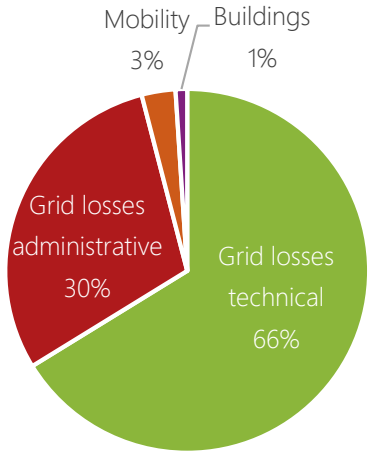


Net Effort Score – Business market



Lower carbon footprint

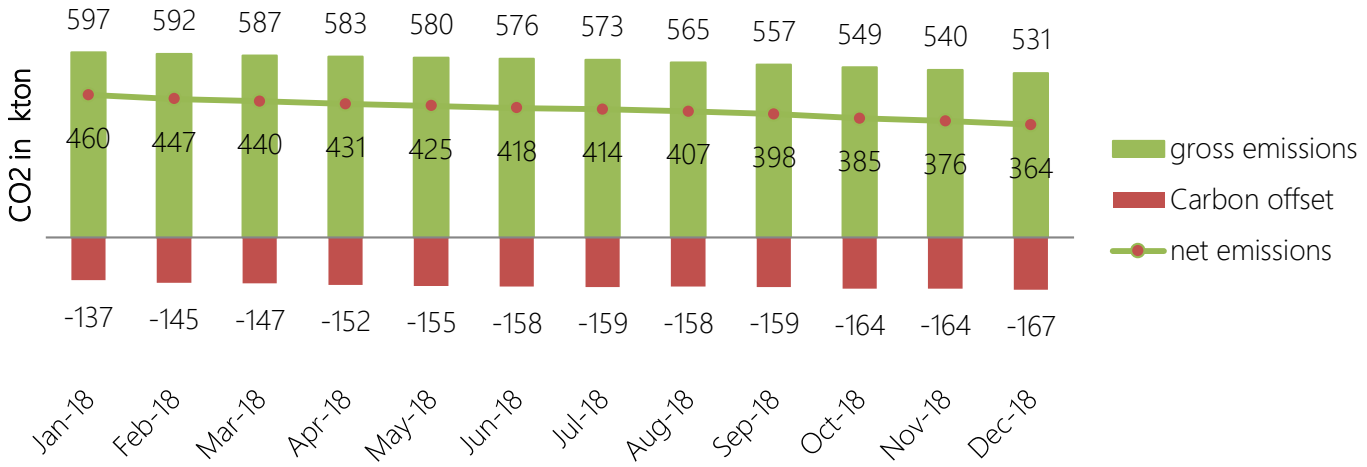
Composition carbon footprint (gross emissions)



Actual net-emissions: 596 kiloton

Target: carbon neutral in 2023

Carbon footprint own operations (last 12 months)

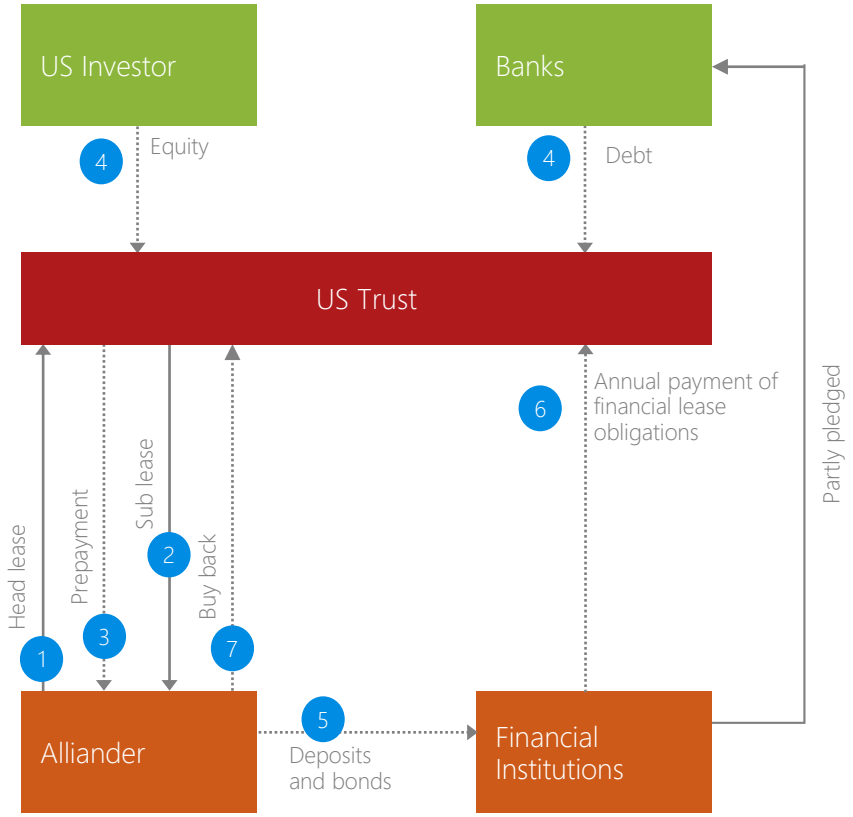


- Our carbon footprint is largely caused by technical grid losses. This is energy loss (through heat) caused by resistance during electricity transport. Administrative losses are mainly caused by fraud.
- Alliander carbon policy is based on trias energetica: reducing energy consumption, use of renewable energy and economical residual energy consumption

- Target is to be carbon neutral in 2023, i.e. no net carbon emissions by our network operations, offices and transport
- Gross emissions decreased by 66 kton in past 12 months as a result of an increase in the use of renewable energy and a reduction in energy consumption (more energy efficient assets, stricter limits on car emissions, increasing use of electric cars)
- Carbon offset in past 12 months increased by 30 kton to 167 kton in total. Our gross carbon emissions are partly offset by purchasing Guarantees of Origin from newly built windfarms under long term contracts
- Resulting net-emissions are 364 kton in past 12 months, a decrease of 96 kiloton

Cross border leases – Basic structure

Basic structure



Basic structure in steps

At transaction closing:

1. Alliander leases grids to US Trust (headlease)
2. US Trust leases grids back to Alliander (sublease)
3. US Trust prepays all finance obligations under headlease to Alliander
4. US Trust finances these prepayments via equity provided by US Investor and bank debt
5. Alliander invests prepayment proceeds in a defeased structure (off balance):
   - Deposits
   - Bonds

During transaction:

6. Use of investment returns to fulfil financial lease obligations (off balance) and to fund purchase price at end of sublease

At end of sublease:

7. Alliander option to buy grids back against predetermined purchase price

Transaction rationale

- Net Present Value of tax deferral for US investor
- Increase in solvency for Alliander by sharing NPV with US investor

Cross border leases – Risks

Risk summary

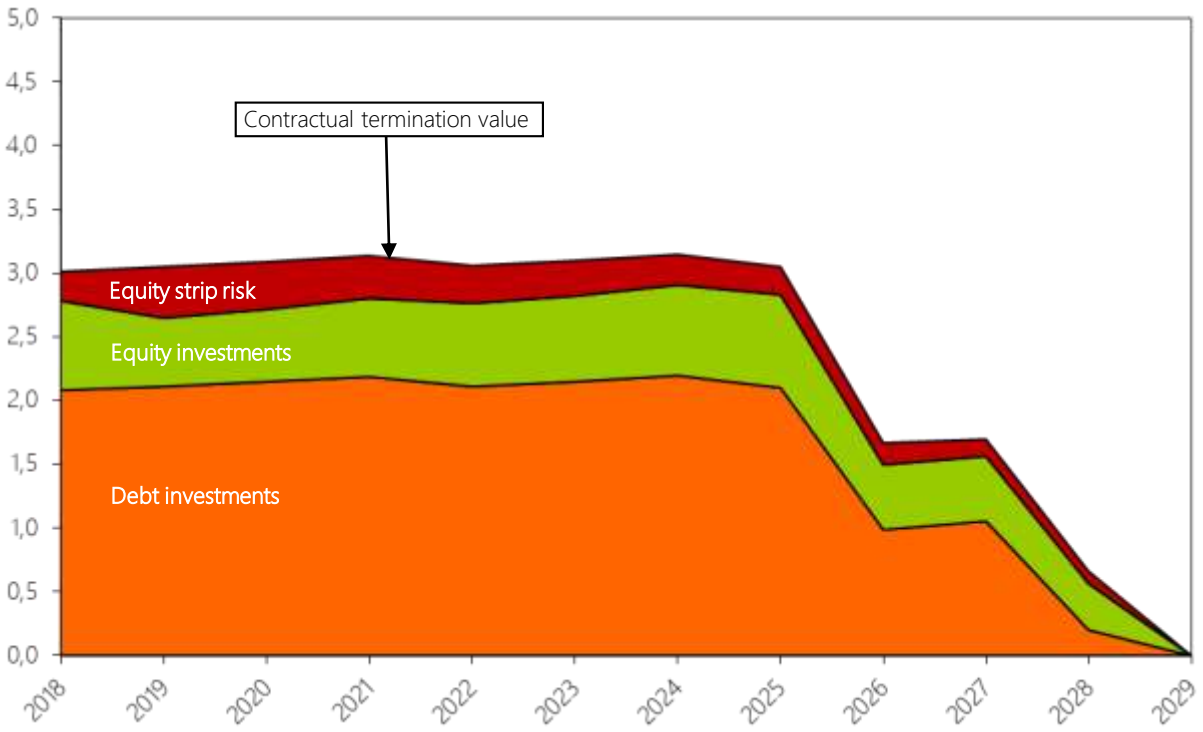
US leases in USD million	3 leases 31 Dec 2018	3 leases 31 Dec 2017
Equity strip risk	199,6	186,2

Overview Letters of Credit in USD million	31 Dec 2018	31 Dec 2017
Issued	-	-
Additional L/C's at A3/A-	148,2	138,8
Additional L/C's at Baa1/BBB+	24,3	24,0

CBL related risks

- Obligation to pay contractual termination value in case of Event of default and/or Event of loss
- Credit risk on investments
- General and tax indemnities
- Posting additional L/C's in case of Alliander downgrade

Contractual termination values CBL's Alliander (USD billion)



Contractual termination value

- Contractual termination value represents the amount needed to safeguard the intended transaction return in case of early contractual termination
- Equity strip risk varies over time depending on the mark-to-market value of investments relative to contractual termination value.

Disclaimer

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