Alliander N.V. Presentation Half-Year Results 2019

24th of July 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 • Five year regulatory periods provides high degree of cash flow predictability
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 • Alliander well above the ratios defined in the financial policy • Proven commitment to stay within financial policy framework • Strong liquidity position with significant volume of undrawn facilities available • Current 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 one of the lowest annual outage duration in Europe • Focused capex program will ensure quality and expansion of the grid is maintained • Smart meter offering on schedule
Sustainability leadership	• Highest ISS-oekom rating amongst utility peer group at Prime B+ (30th of June 2019)

Highlights 2019

Financial

- Profit after tax slightly decreased to € 121m (2018H1: € 227m) including incidental item of € 106m from book profit on the sale of Allego; Profit after tax excluding incidental items and fair value movements almost the same compared to 2018H1. (€ 125m)
- Revenue was the same € 952m (2018H1: € 952m)
- Operational expenses slightly higher at € 785m (2018H1: € 780m)
- Gross investment increased to € 402m (2018H1: € 345m). Net investment amount increased to € 344M. (2018H1: € 295m)
- Issuance of a second Green Bond of 300m, tenor 13 year (June 2019)

Strategic

- More focus on feasibility of the workload, energy transition portfolio, heat transition and cost savings

Regulatory

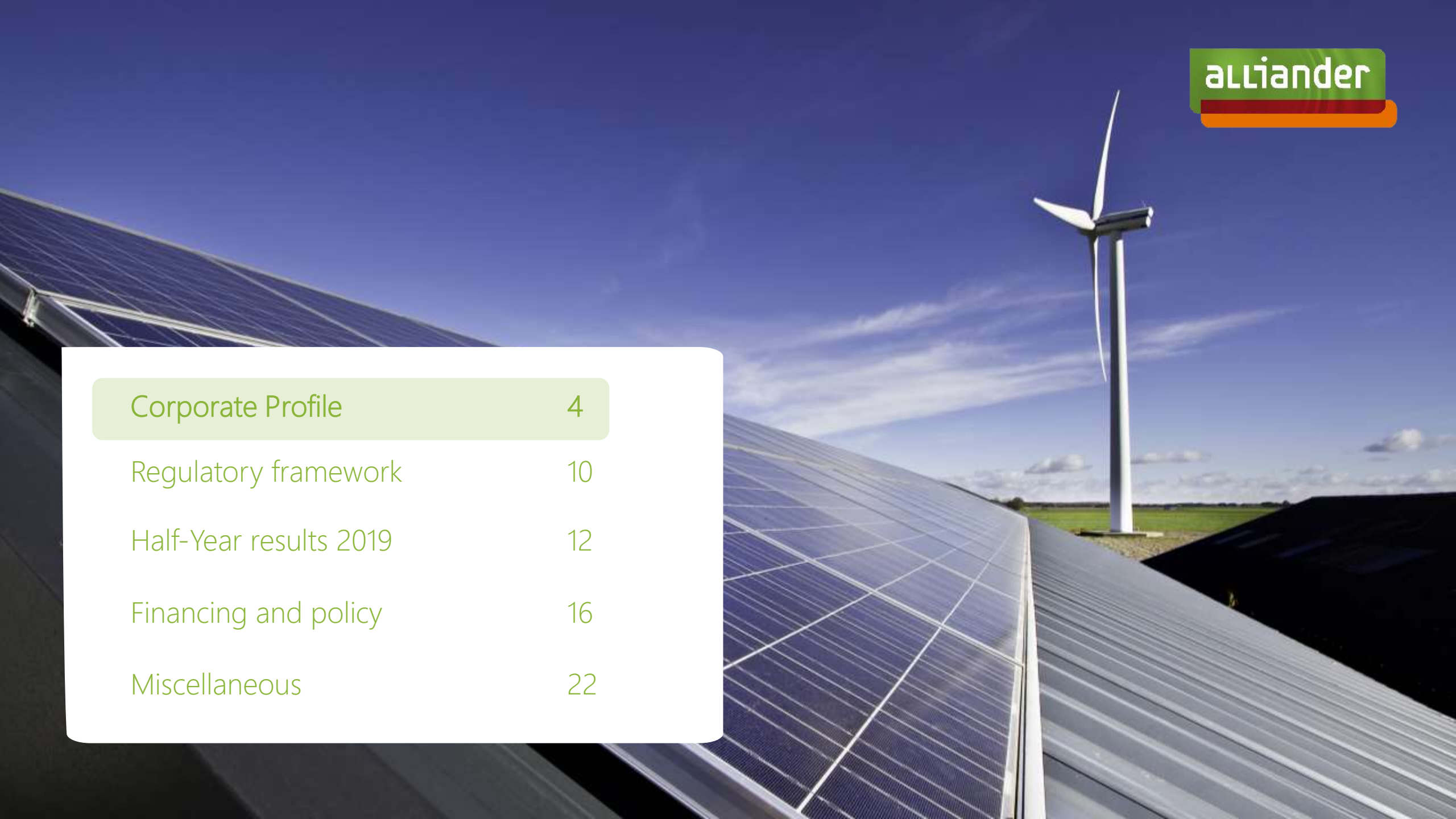
- New Dutch Climate Agreement that aims for a 49% CO_2 reduction by 2030
- Method decisions annulled by the Trade and Industry Appeals Tribunal (CBb). ACM needs to make new method decisions. WACC is expected to increase slightly

Operational

- Increased workload due to economic growth and acceleration of energy transition
- Shortage of technically skilled personnel
- Smart meter offering on schedule
- Decrease in electricity outage duration to 23.5 minutes in past 12 months (30-June-18: 29.3)

Governance

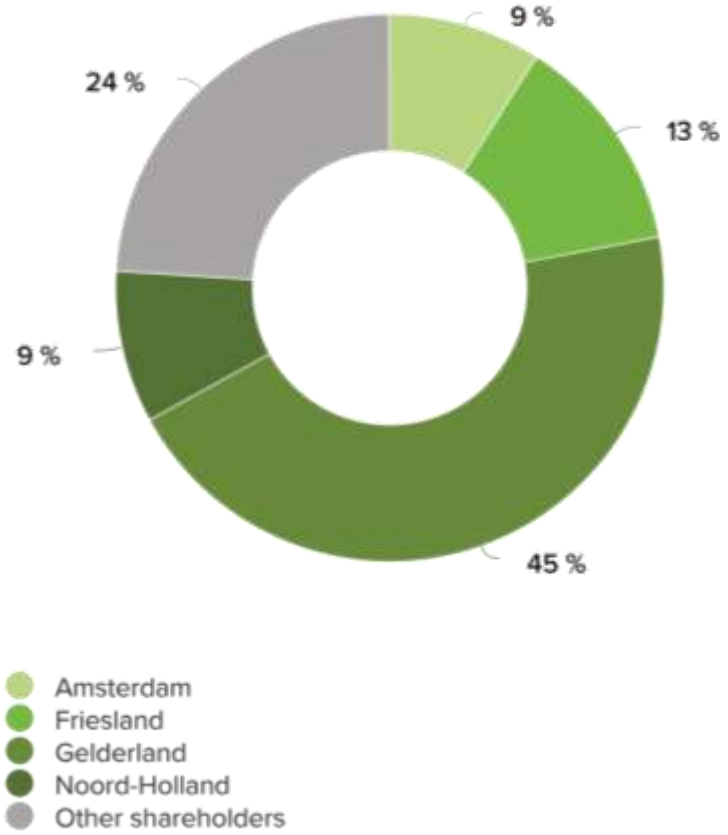
- Appointment of Walter Bien as of the 7th of October to the Board of Directors as new CFO and successor of Mark van Lieshout
- Daan Schut has been appointed as of the 1st of April 2019 to Chief Transition Officer (CTO).



Overview of Alliander

Service area

Shareholders



Grid length (in kilometres)[1]

ELECTRICITY

91,000 km

90,000 km in 2017

GAS

42,000 km

42,000 km in 2017

Number of customer connections[1]

5.7 m

5.7 m in 2017

Number of employees in FTEs[1]

5,669

5,755 in 2017

Carbon emissions[1]

288 kton

416 kton in 2017

[1] 2018 figures

Dutch Climate Law and Climate Agreement

Climate Law: secures both the Climate Agreement and long term ambitions

- May 2019 — Climate Law approved in Parliament.
- June 2019 — Presentation Final Climate Agreement
- 2030 — CO_2 emissions 49% lower compared to 1990
- 2050 — CO_2 emissions 95% lower compared to 1990. All electricity is generated CO_2 neutral

Every 4th Thursday in October is National Climate Day, including a Climate Memorandum. Once per two-five years the National Climate Plan will be re-evaluated.

Climate Agreement: main outcomes and impact for DSO

Fivefold production of renewable electricity, Regional Energy Strategies will determine location and infrastructure
70% renewable electricity in 2030

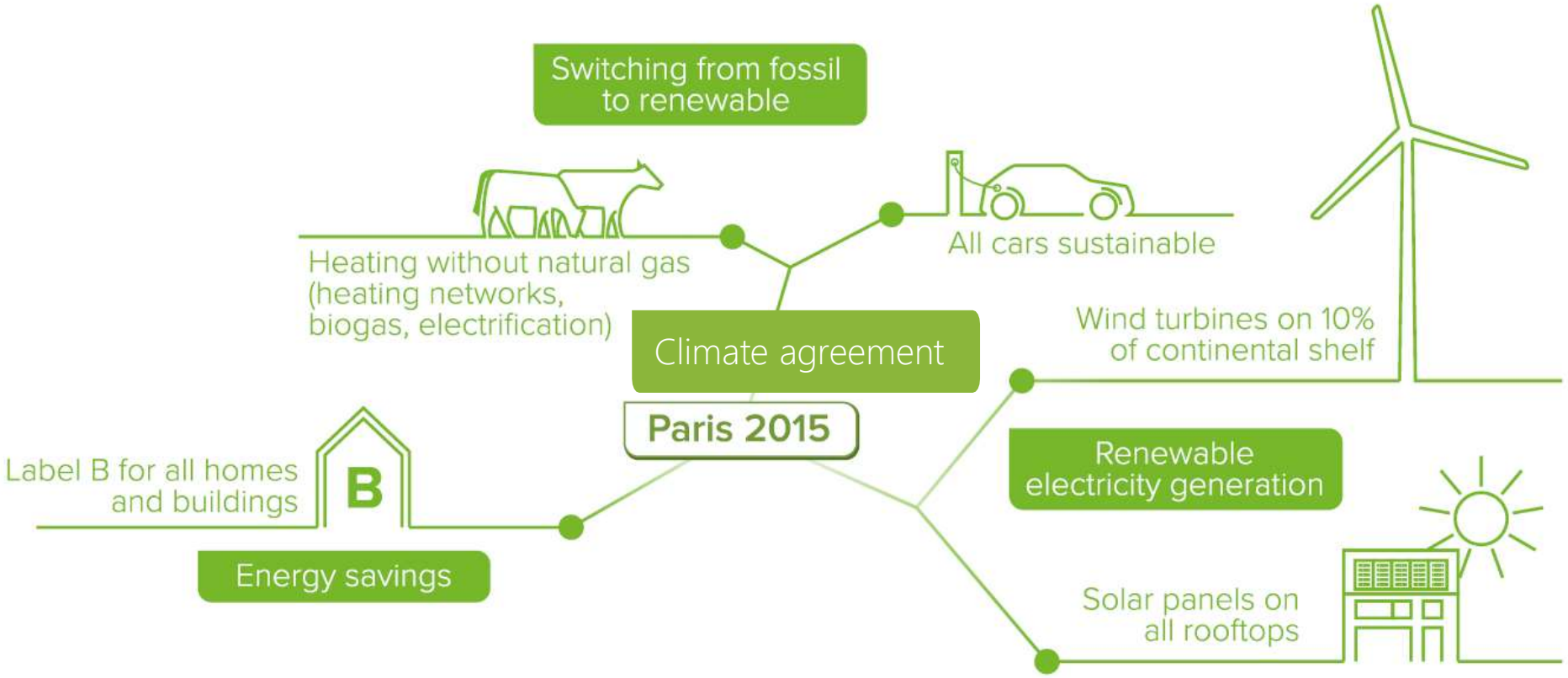
A neighborhood approach for the built environment, municipalities will take the lead in where to start
New heating systems for 1.5 million houses in 2030

More electric vehicles and electric charging infrastructure
Up to 1.8 million charge points in 2030,

Industry transformation through improved efficiency, electrification, CCS, heat and CO2 distribution
Electrification of industry will lead to impact on infrastructure, energy-system studies will improve long-term planning

Sustainable agriculture through less livestock and less emissions from land-use (peat)
Also electrification of greenhouses will lead to impact on infrastructure

Realisation Climate Agreement targets impacts our networks



Our main challenge is to prevent the energy infrastructure becoming a bottleneck in the energy transition

Alliander's 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

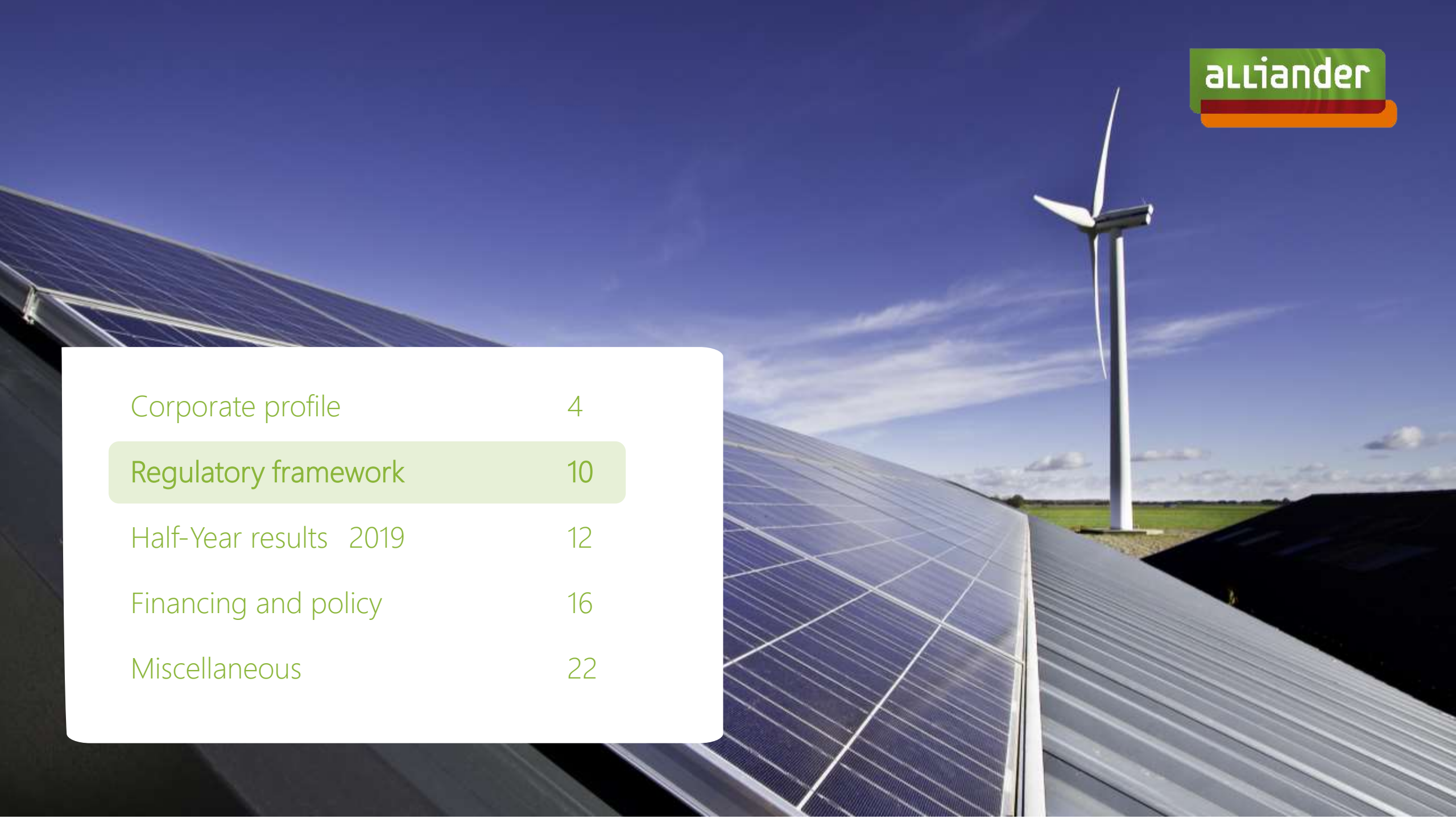
Digitisation of grids

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

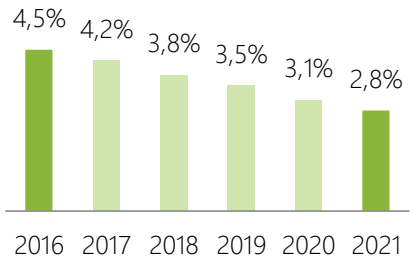


Regulatory framework

Regulatory period

- Current 5-year regulatory 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 costs. In the long run the sector as a whole is able to cover its total efficient costs including capital costs
- Method decisions for electricity and gas for the 2017-2021 period have been annulled by the Trade and Industry Appeals Tribunal (CBb). ACM has prepared new method decisions in concept. The actual expectation is that the definite decisions will lead to no or sligthtly improved financial revenues.

Regulated real WACC



Legislation (VEt)

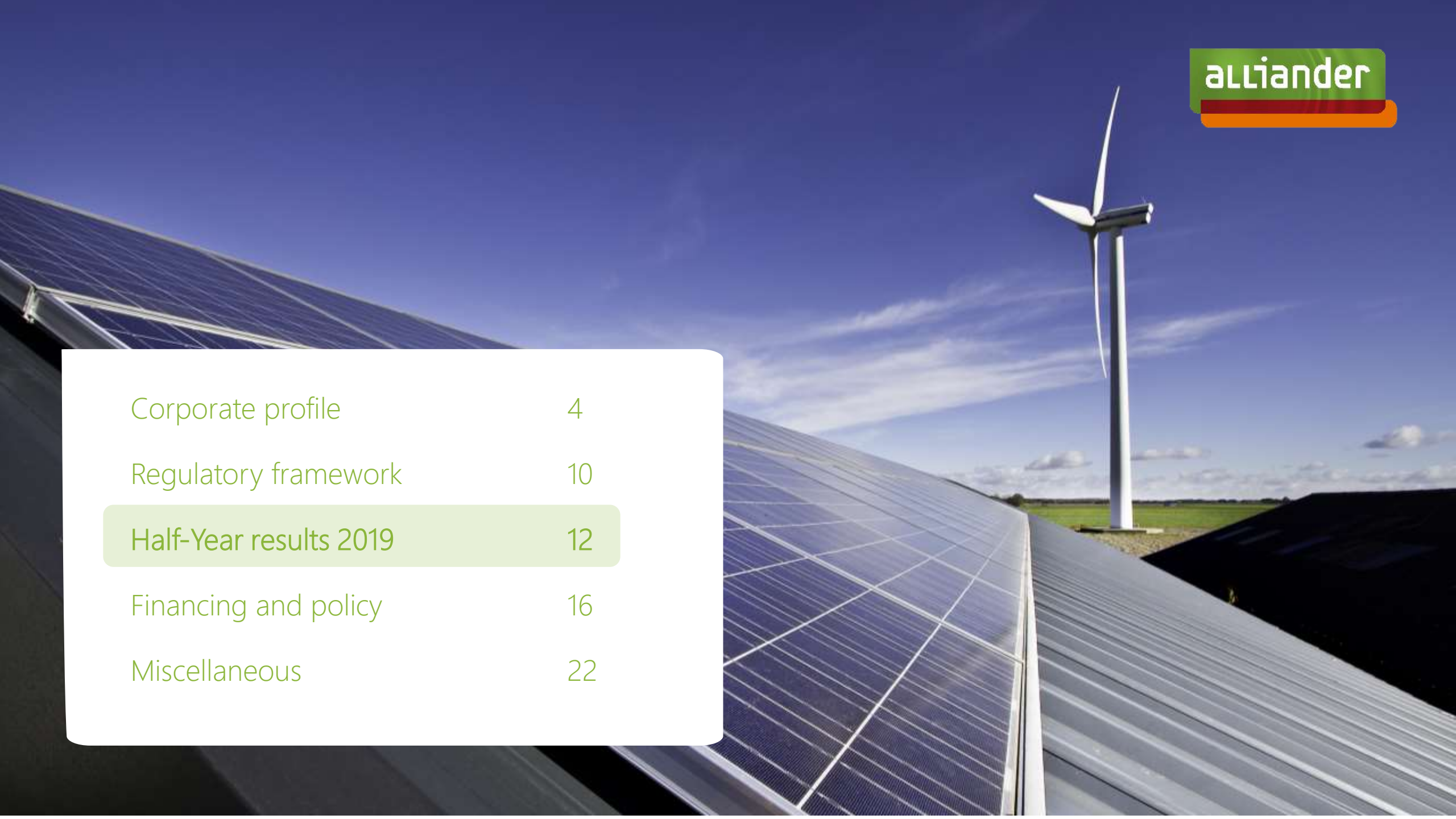
- The major change in the Electricity and Gas Acts (VEt, July 2018) is a further explanation of tasks and mandates of DSO's
- Some elements enter into force later. Grid losses and the total of the large gas grid connections will be added to regulatory domain as of 2020
- Financial impact of VEt for Alliander assessed as neutral

Tax use public grounds

- In 2018 a new Act has been accepted to phase out the possibility for municipalities to levy tax for the use of public grounds to DSO's as end of 2021.
- The individual costs of these levy are covered in the individual tariffs, so this is no issue for DSO's. This is part of the regulatory framework.

Limitation on mandatory provision of gas connections

- As of 1 July 2018 – besides a transitional arrangement – it is not allowed to connect new households to gas grid.
- Furthermore municipalities are allowed to designate existing urban areas - where provisions are made for district heating or other heat supplies – where the obligation for DSO' s expires to make new connections to the gas grid.



Lower result due to book profit Allego in 2018

€ million	1st half 2019	1st half 2018
Revenue	952	952
Other income	19	121
Total income	971	1,073
Operating expenses		
Purchase costs and costs of subcontracted work	-217	-210
Employee benefit expenses	-254	-253
External personnel expenses	-60	-76
Other operating expenses	-162	-162
Total purchase costs, costs of subcontracted work and operating expenses	**-693**	**-701**
Depreciation and impairment of property, plant and equipment	-220	-198
Less: Own work capitalised	128	119
Total operating expenses	**-785**	**-780**
Operating profit	186	293
Finance income	6	7
Finance expense	-28	-28
Result from associates and joint ventures after tax	-1	-
Profit before tax from continuing operations	**163**	**272**
Tax	-42	-45
Profit after tax	121	227

- The total operating income is € 102 million lower compared to last year. These lower revenues are explained by the book profit on the sale of Allego in 2018 (€ 106 million[1]). The regulated electricity and gas turnover is almost € 12 million lower than in 2018. Although electricity is still growing, the lower regulated tariffs cause a fall in revenues. On the other hand, with regard to the revenue from the metering service there are higher regulated rates.

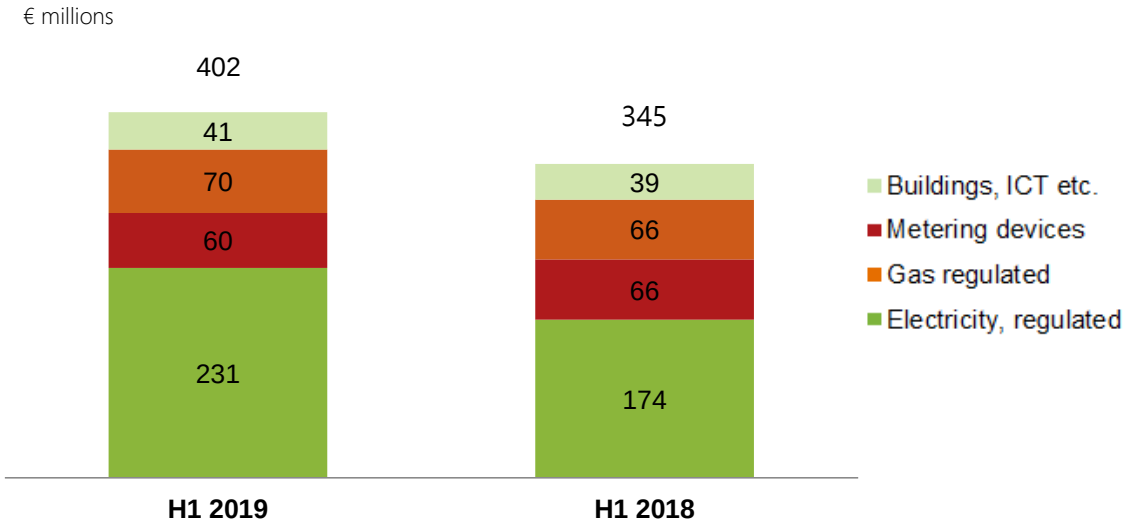
- The total operating costs for the first half of 2019 amounted to € 785 million (first half of 2018: € 780 million) due to, among other things, an increase in purchasing costs, precario and depreciation. The personnel costs and other operating costs are lower than the same period last year.

- Result after tax decreased by € 105 million mainly due to the aforementioned book profit on the sale of Allego (€ 106 million) in 2018.

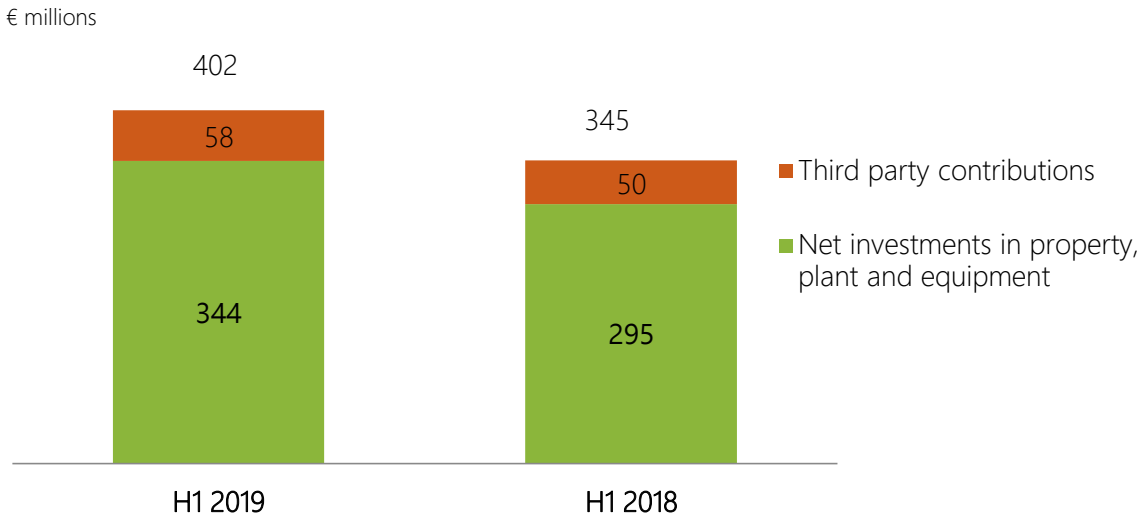
Note : [1] The provisional book profit of June 2018 is € 106 million and is subsequently based on the final settlement set at € 105 million. The book profit is recognized under other income.

Investments rise with 17%

Gross investments in property, plant and equipment



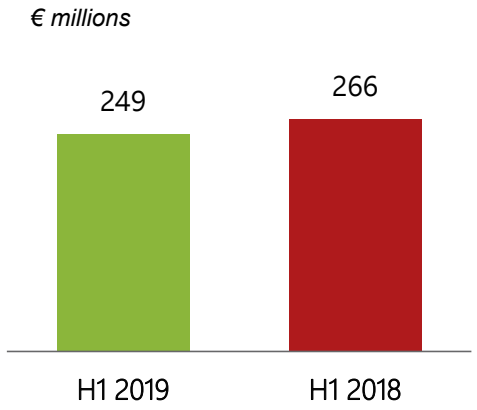
Net investments in property, plant and equipment



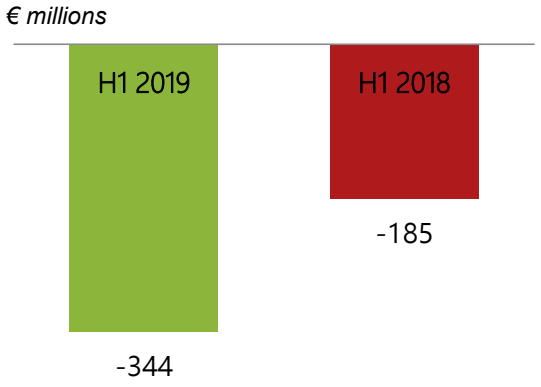
- Investments € 57 million higher than last year
- Investment level high due to increase in investments in electricity grids
- The difference of € 58 million between gross and net is caused by investment contributions from third parties (2018H1: € 50 million).

Increase in funding need

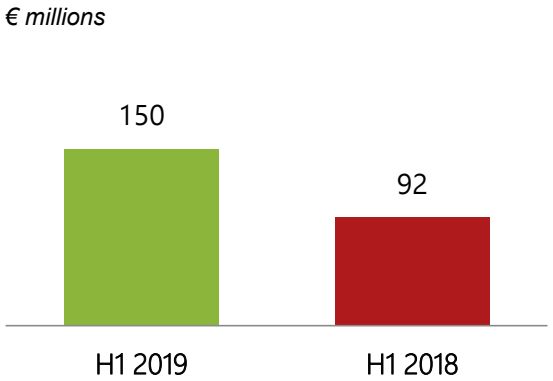
Cash flow from operating activities



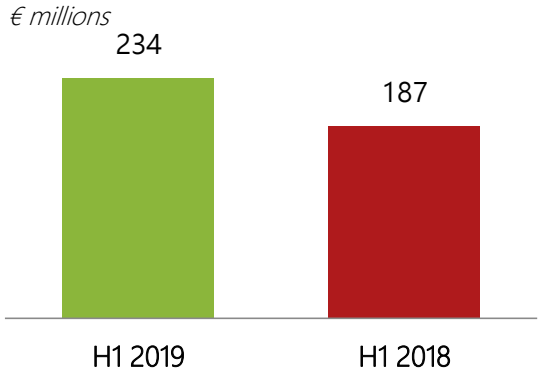
Cash flow from investing activities



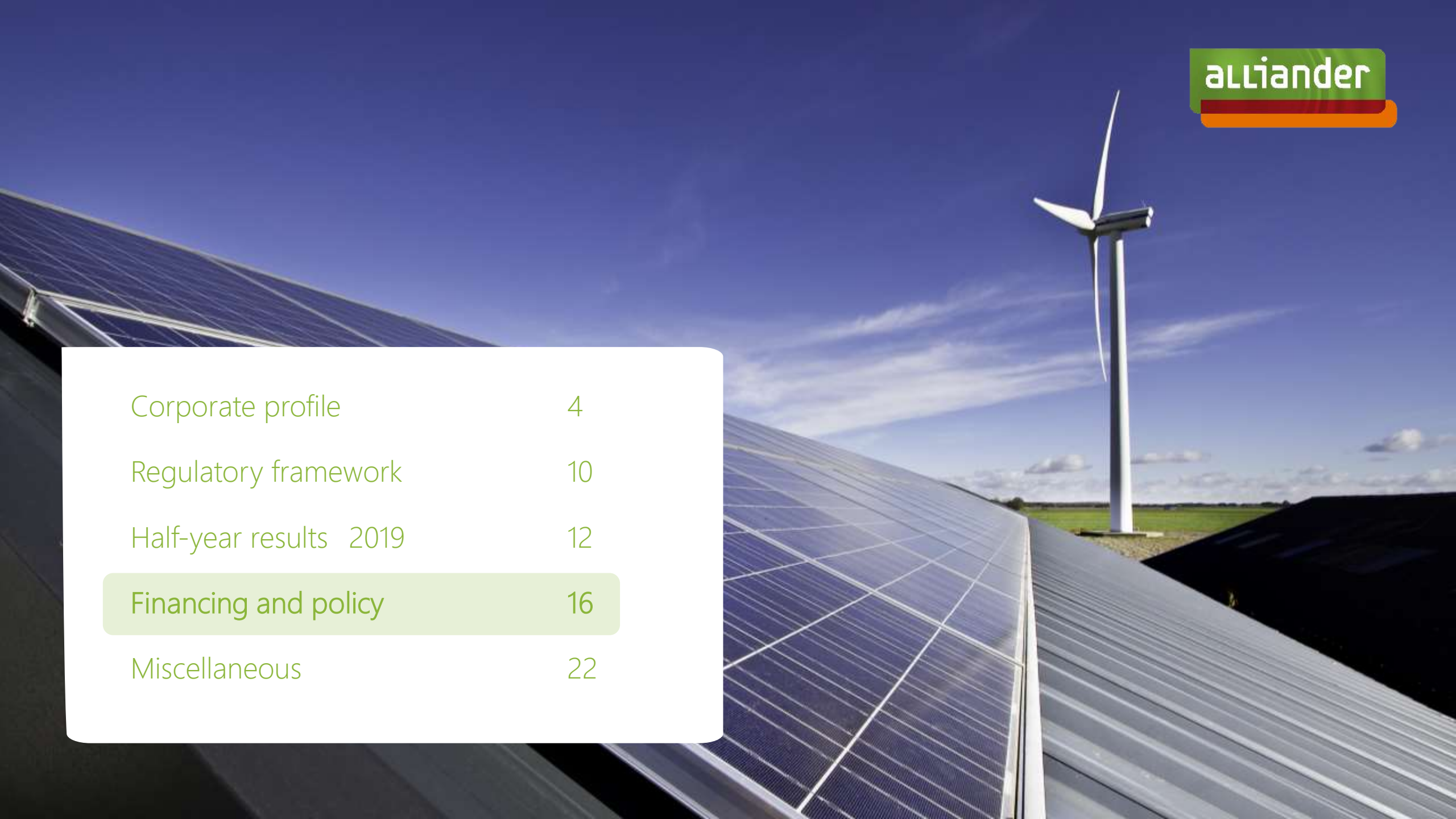
Dividend paid



Cash flow from financing activities (excl. dividend paid



- In the first half of 2019, cash flow from operating activities amounted to € 249 million (first half of 2018: € 266 million). This decrease of € 17 million is mainly due to higher pre-paid profit tax.
- The cash flow from investing activities in the first half of 2019 amounts to € -344 million (first half of 2018: € -185 million). This difference is mainly due to the sale of Allego in 2018 and the higher investment level in the first half of 2019. The investments in tangible fixed assets in the first half of 2019 amount to € 402 million (first half of 2018: € 345 million).
- Payment of dividend for 2018 € 58 million higher than for 2017 due to sale of Allego.
- The cash flow from financing activities for the first half year of 2019 amounted to an inflow of € 234 million. The inflow in the first half year of 2019 is mainly due to the loans raised of € 446 million (green bond of € 296 million and attracted ECP of € 150 million) in combination with a higher dividend paid and issued short-term deposits (total € 200 million).



Financial policy

Financial framework

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

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
- Flexibility to grow and invest
- No structural subordination

Alliander's sustainability strategy and contribution to SDG's

Alliander CSR Strategy

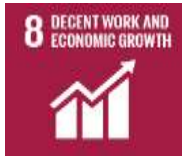
- Alliander is on track to achieve climate-neutral operations by 2023
- The CSR efforts are aimed at three focus areas:
  1. Targeting climate-neutral and circular operations
  2. Contributing towards the energy transition by giving all customers equal access to renewable energy
  3. Taking responsibility for a social and inclusive organisation

Alliander contribution to the UN SDGs

- Alliander carried out an in-depth study reviewing operations, core activities and the entire value creation process to ascertain which SDGs best match their own initiatives, objectives and strategy in addition to stakeholders' expectations
- The company identified four development goals that Alliander is focusing on and actively pursuing

Circular Operations

- In 2018, the share of circular procurement was 16.5%
- Alliander is aiming to make circular purchases of at least 40% of primary assets by 2020. The management focus is along four lines:
  1. make the best possible use of the materials
  2. where possible, make circular purchases of main materials
  3. avoid wasting materials in operations
  4. recycle 100% of the remaining waste



On the way to a CO_2 neutral business in 2023

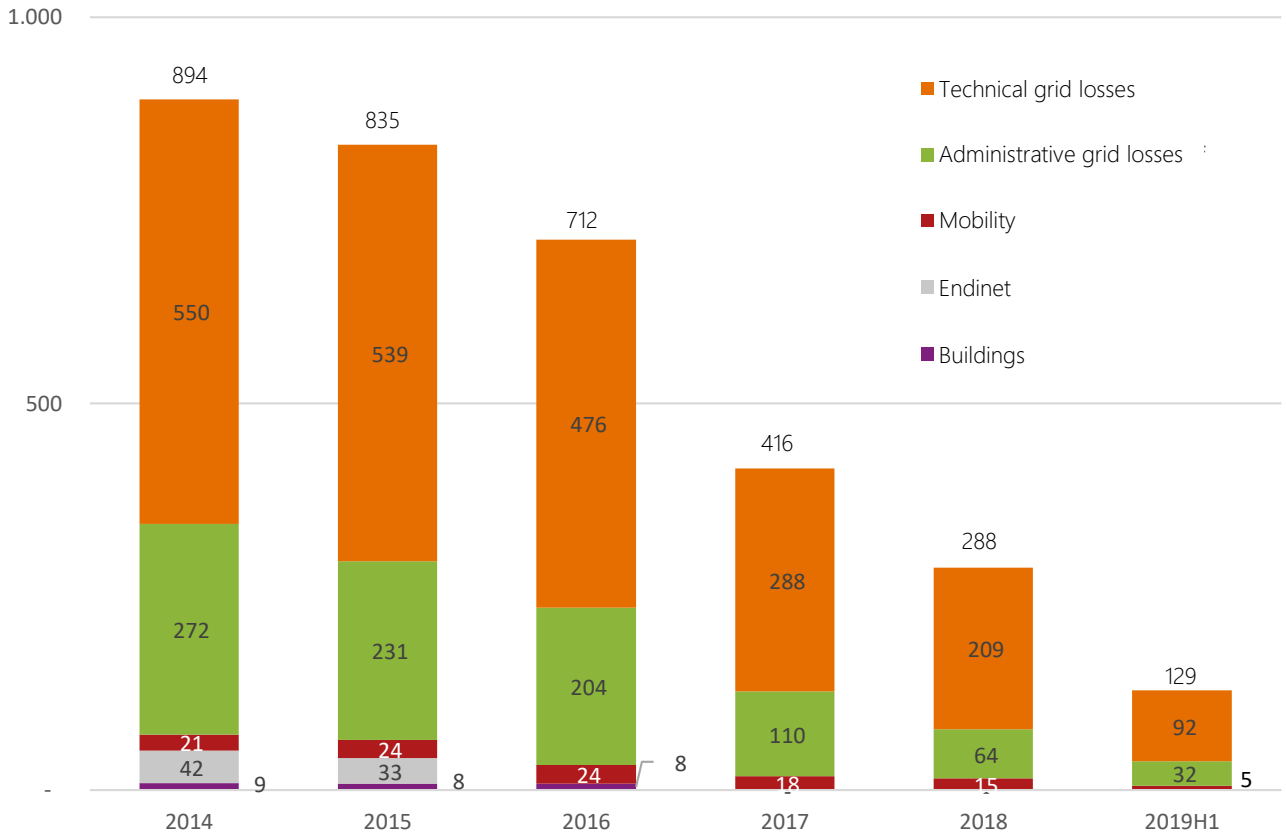
Climate Neutral operations

In first half of 2019 Alliander's CO_2 emissions fell by 15 kilotonnes, representing a reduction of some 5% compared with the same period last year.

Alliander's climate-neutral operations objective by 2023 will be achieved via:

1. Saving energy and improving energy efficiency
   - The application of sustainable climate regulations in our sub-stations
   - low-energy or energy-positive buildings such as our new office in Duiven
   - the prevention of energy fraud
   - the use of fewer, smarter and more eco-friendly company and lease cars. Alliander's lease cars are standardised to emit no more than 100 grams of CO2 per kilometre.
2. Using renewable energy where possible
3. Carbon offsetting the use of non-renewable energy by purchasing certificates of origin for renewable energy from newly built windfarms in the Netherlands

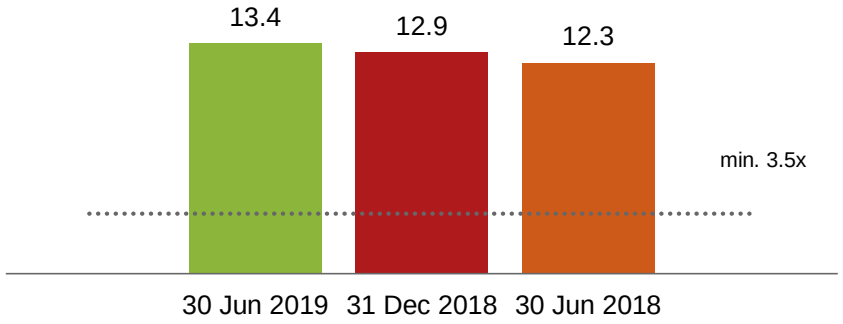
Alliander's net CO_2 emissions own operations[1]



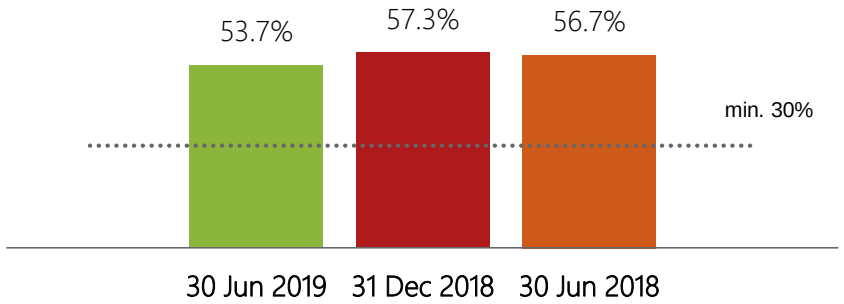
1) For 2018, CO_2 emissions were calculated using actual energy production emission coefficients for the electricity we bought from our suppliers to meet grid losses. Originally, this coefficient was not specifically calculated, an average (trading mix) factor being used instead. The comparative figure for 2017 has been restated using the new method. New method is aligned with Dutch sector practice.

The financial ratio's are within the boundaries of financial policy[1]

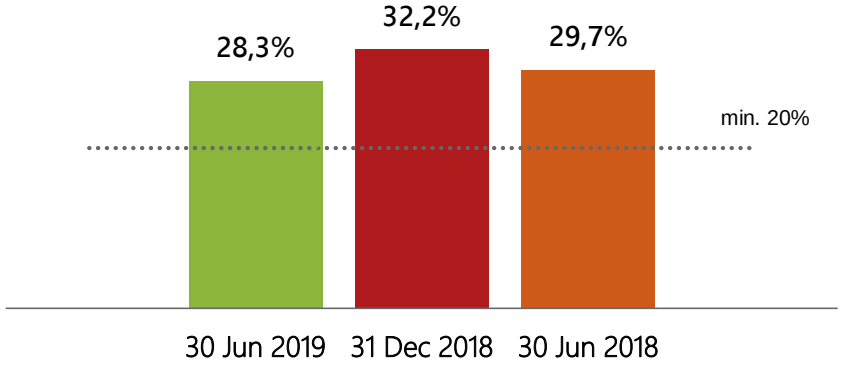
Interest cover [2]



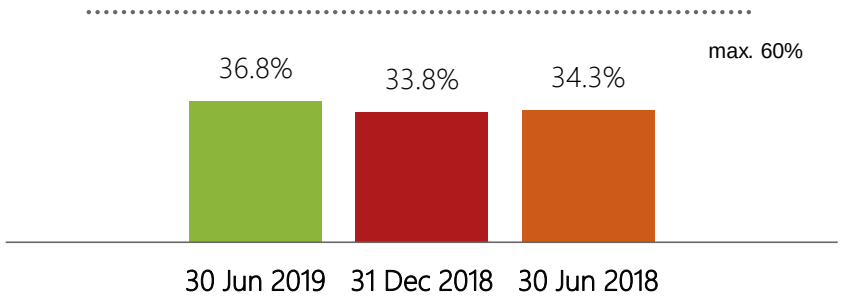
Solvency [4]



FFO/Net debt [3]



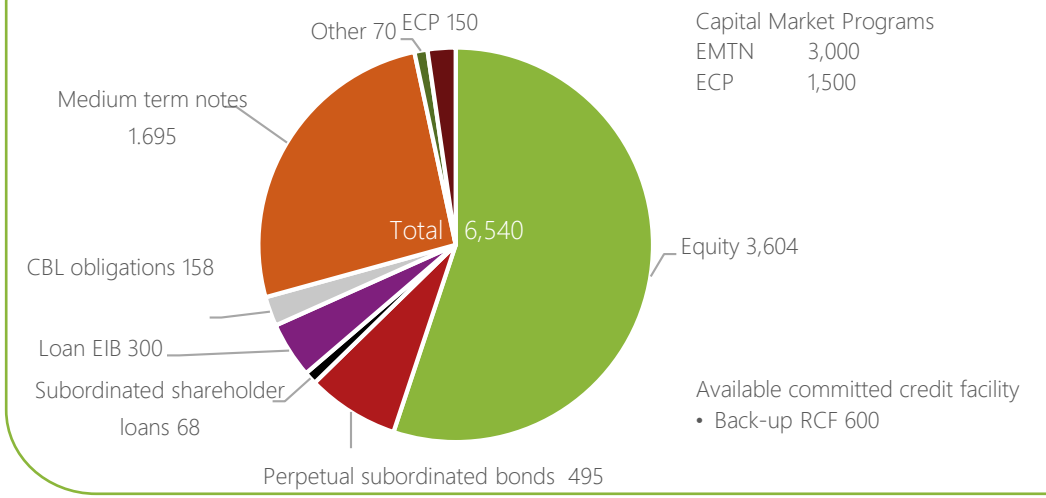
Net debt/capitalisation ratio [5]



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 .

Financial position

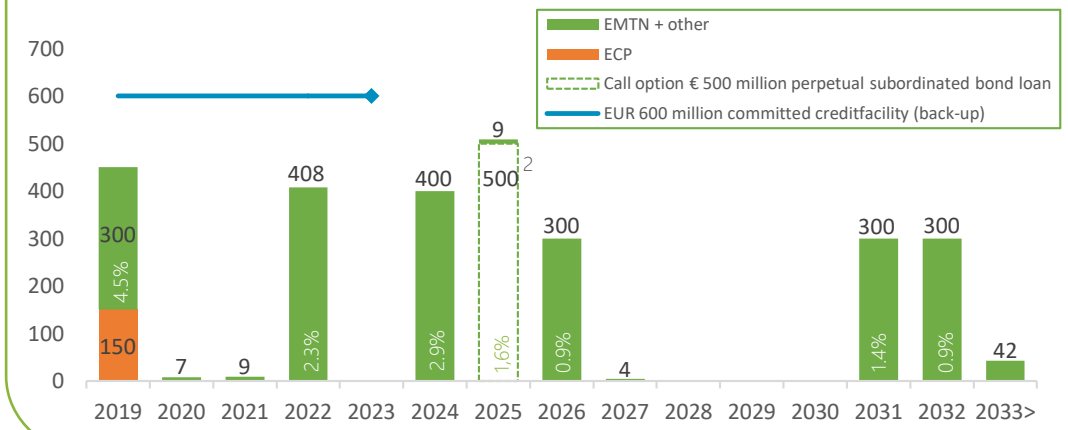
Capitalisation (in € million)



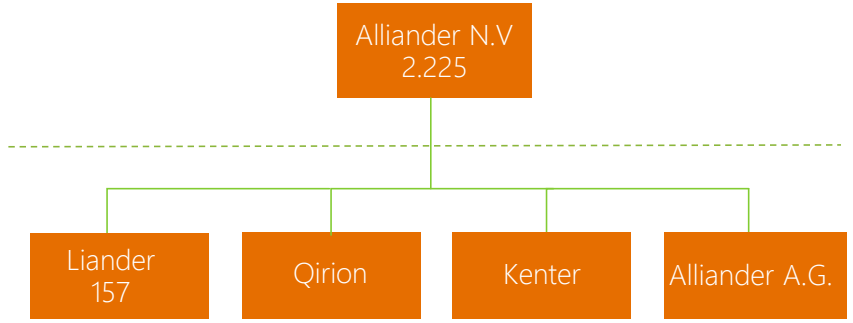
Gross- and net debt (in € million)

Gross debt (including lease obligations)		2,441
Cash	129	
CBL Investments	157	
Time deposits	200	
Total cash & investments		486
Net debt according to IFRS		1,955
50% of the perpetual loan		248
Net debt according to the financial policy		2,203

Repayment schedule for interest-bearing loans (in € million) [1]

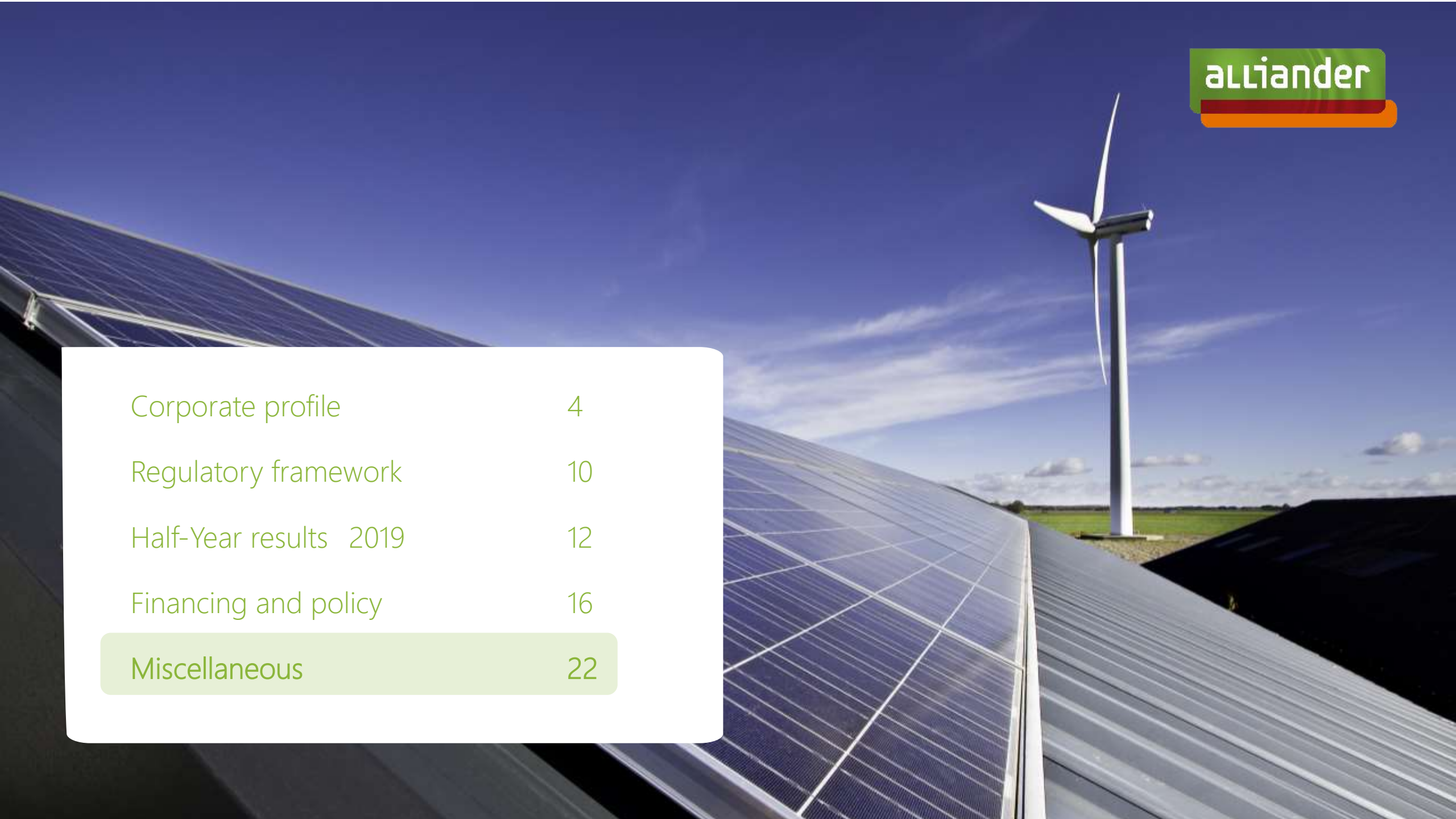


Location of debt (in € million) [3]



1 Excluding € 216m in lease obligations
2 € 500m perpetual subordinated bond loan shown at first call. Alliander is committed to this hybrid loan as a long term part of the capital structure

3 Including € 157m CBL related lease obligations, excluding €59m. other lease obligations at subsidiary level.



Cross border leases

CBL related risks

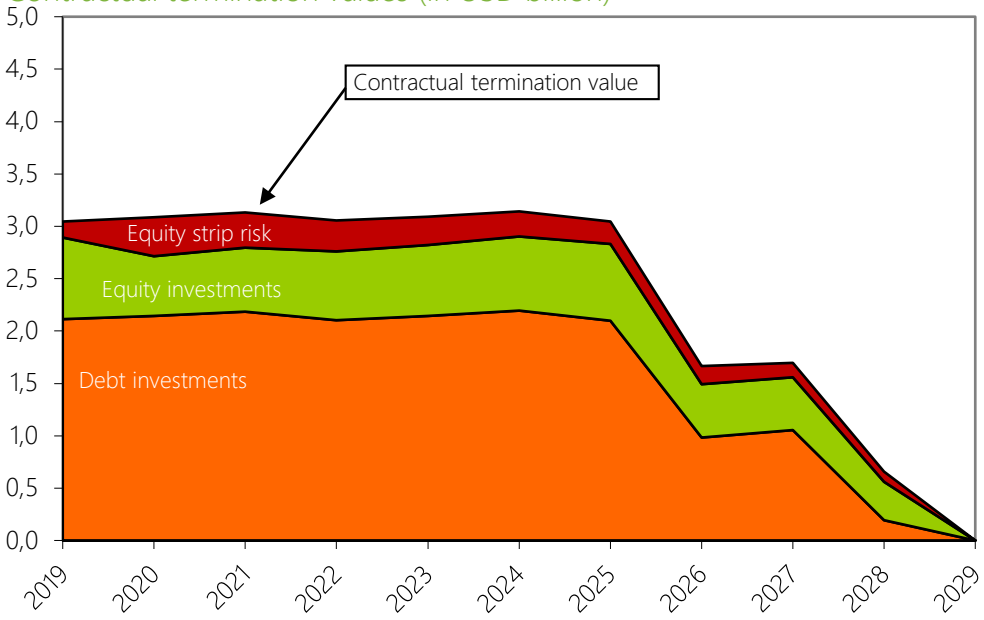
US leases	3 leases 30 June 2019	3 leases 31 Dec 2018
in USD million		
Equity strip risk	153,9	199,6

Overview Letters of Credit	30 June 2019	31 Dec 2018
in USD million		
Issued	-	-
Additional L/C's at A3/A-	141,8	148,2
Additional L/C's at Baa1/BBB+	24,7	24,3

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 (in USD billion)



Contractual termination values CBL contracts

- 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

'We', 'Alliander', 'the company', 'the Alliander Group' or similar expressions are used in this presentation as synonyms for Alliander N.V. and its subsidiaries. Alliander N.V. holds the entire share capital of Liander N.V., Qirion B.V., Firan B.V., Kenter B.V. and Alliander AG among other entities. Liander refers to network operator Liander N.V. and its subsidiaries. In this presentation, the names of the various entities are also used without including the abbreviations for the legal structure.
Parts of this presentation 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 presentation has been prepared using the accounting policies applied in the preparation of the annual 2018 financial statements of Alliander N.V., which can be found on www.alliander.com.

This presentation has not been audited.