Alliander N.V. Presentation Half-Year Results 2021

29th of July 2021

Highlights 2021 YTD

Financial

- The net profit increased by €27m to €119m (2020H1: €92m)
- Revenue increased to €1.046m (2020H1: € 990m)
- Operational expenses higher at € 913m (2020H1: € 866m) due to higher transport cost, higher depreciation, higher personnel costs related to production and purchase costs of grid losses.
- Gross investment increased with €60m to € 465m (2020H1: € 405m). Net investment amount increased to € 387m (2020H1: € 327m)
- Higher financing need due to increase in negative free cash flow
- Request to shareholders to strengthen capital structure through convertible hybrid loan
- Rating actions:
  - Moody's rating downgrade from Aa2 to Aa3. Stable outlook and P-1 rating unchanged
  - S&P puts AA- and A-1+ ratings on credit watch negative

Strategic

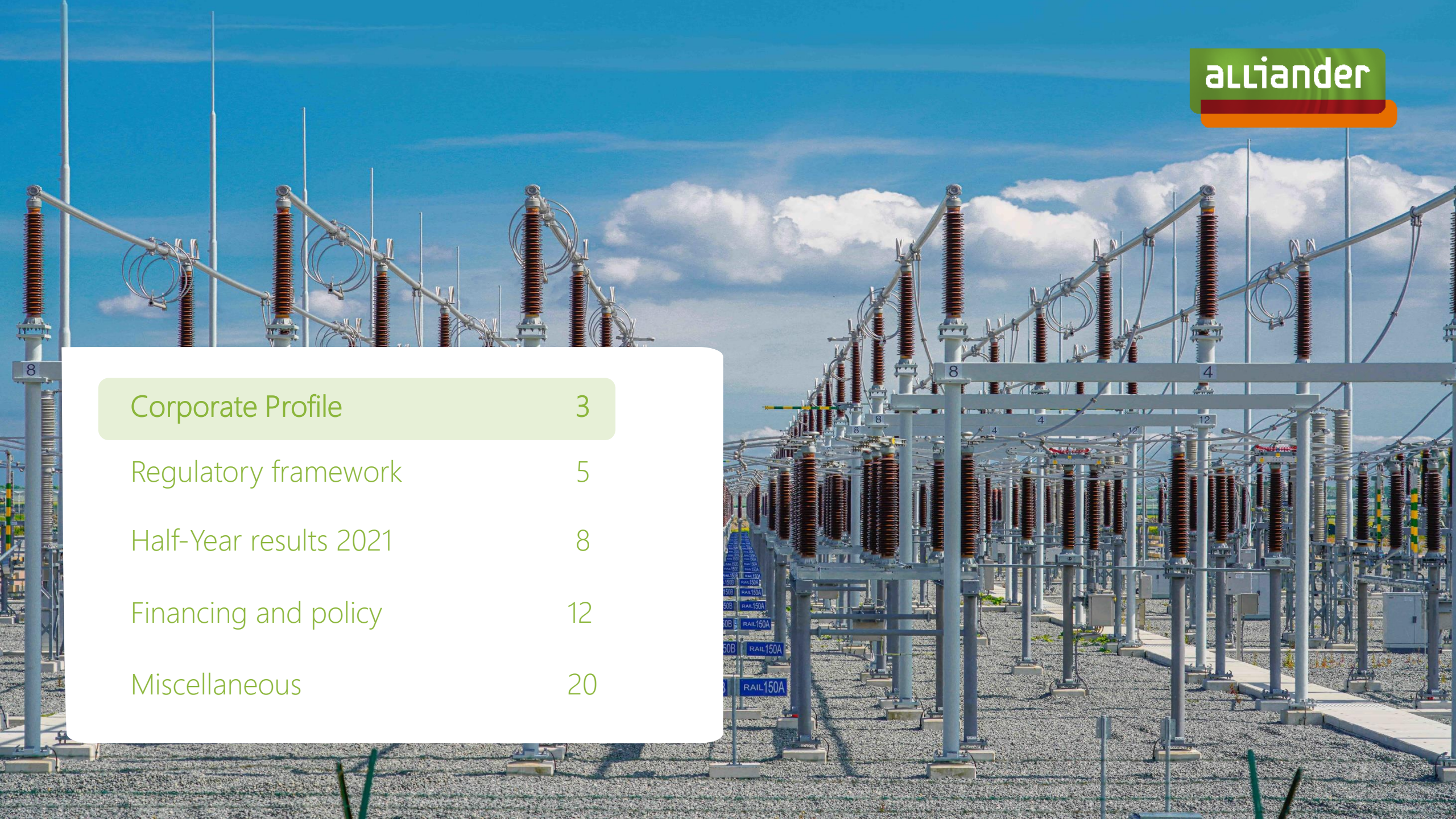
- Cooperation with local and provincial authorities and other stakeholders to develop the Regional Energy Strategies (RES).
- Sale of 75% of 450Connect

Regulatory

- Draft Method decision for the next regulatory period:

Operational

- Realization of work package under pressure due to long lead times caused by shortage of technically trained personnel, permit procedures and shortage of building materials
- Scarcity on the electricity grid
- More work done than last year
- Electricity outage duration increased to 23.5 minutes over the past 12 months (30-June-20: 22.6).



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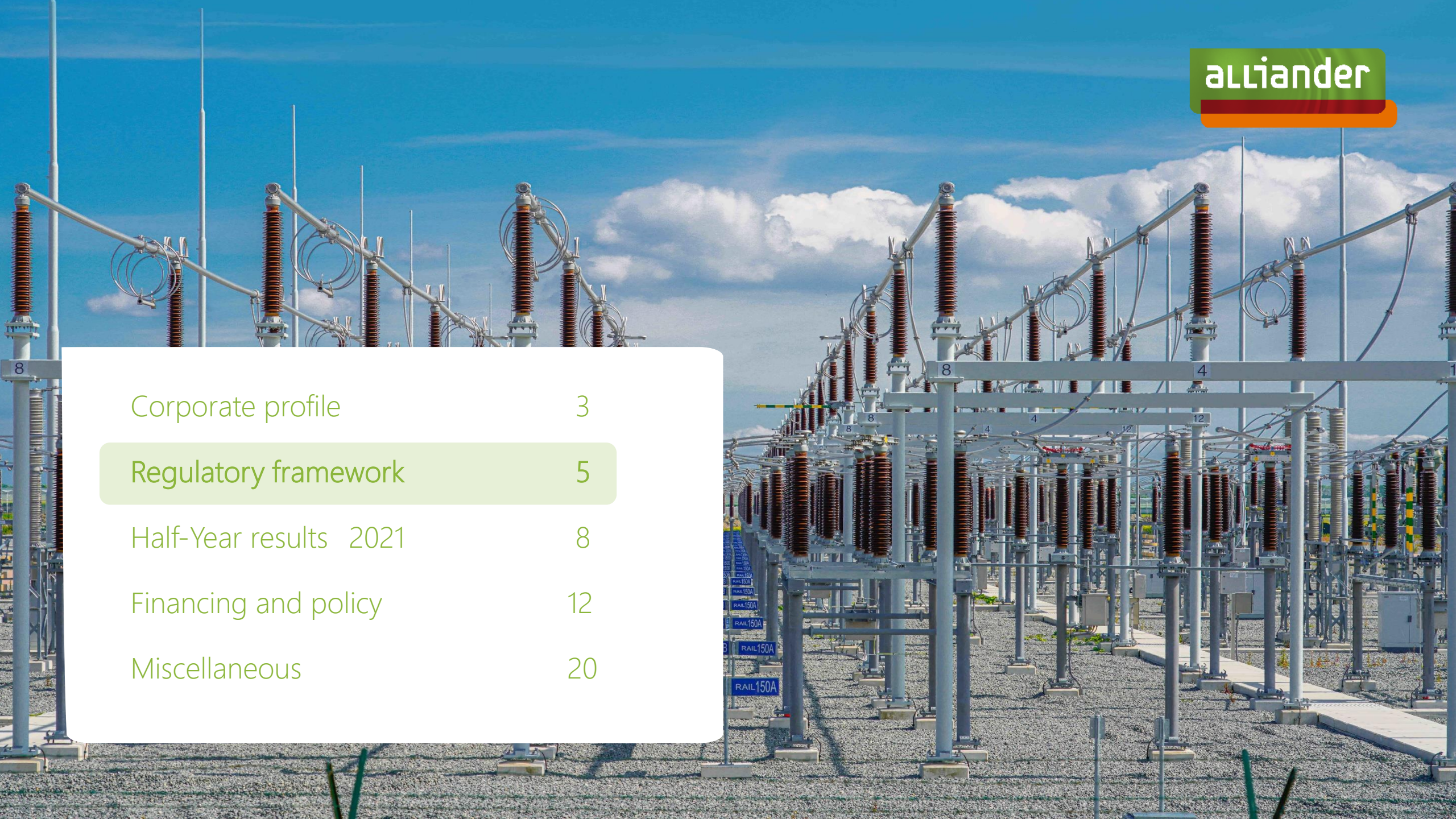
Credit profile Alliander

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 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
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 within financial policy framework • Strong liquidity position with significant volume of undrawn facilities available • Credit rating Aa3/P-1/stable outlook by Moody's and AA-/A-1+/CreditWatch Negative by S&P
Operational expertise	• High quality assets; reliable grid with relatively low annual outage duration in European context • Focused capex program will ensure grid quality is maintained
Sustainability leader	• Top notch ESG ratings: Sustainalytics: low risk, MSCI: AAA rating, ISS-ESG Prime B+ rating • CO_2 neutral by 2023



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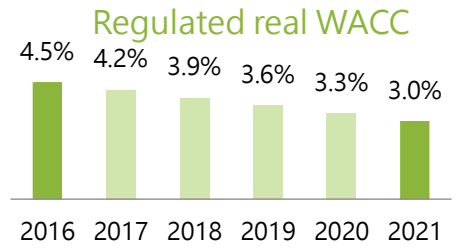
Regulatory framework

Current regulation period 2016-2021

- Benchmark on average costs.
- Decreasing real WACC
- The current 5-year regulatory period ends at the end of this year.



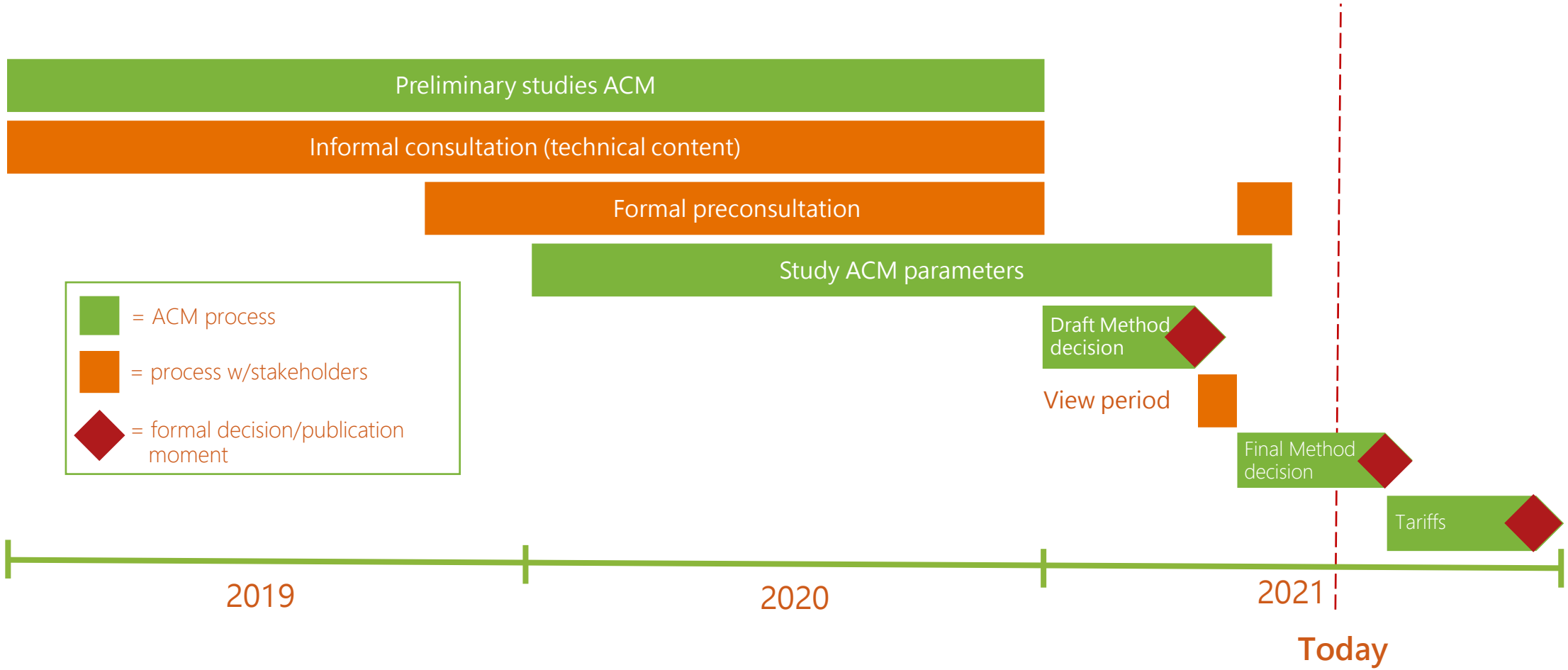
Next regulation period 2022-2026

- Last April ACM published draft method decisions for electricity and gas for the period 2022 to 2026
- These methods are largely based on the same principles as in the current method.
- Changes compared to current regulatory period:
  - Real WACC falls from 1.15% in 2022 to 0.99% in 2026
  - Nominal WACC system for gas
  - Accelerated depreciation of gas assets
  - Full compensation for decommissioned gas networks
- Publication by ACM of the final method decisions for the period 2022 to 2026 is expected in September 2021

Legislation

- Grid operators urgently need flexible and future-oriented legislation and investment security
- Ongoing legislative processes:
  - New energy law
  - Market regulation Heat (Warmtewet 2.0)
  - Environmental Act will enter into force on 1-1-2022

Schedule publication ACM method decisions new regulation period



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Higher net results due to the higher regulated tariffs and the sale of 450Connect

Consolidated profit and loss statement

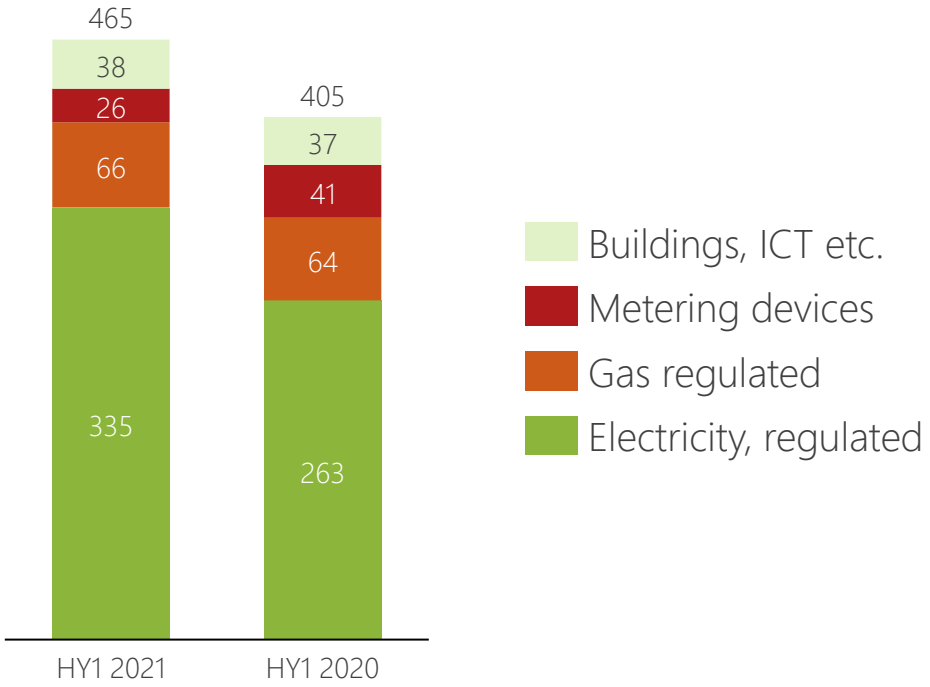
€ million	1st half	
	2021	2020
Revenue	1,046	990
Other income	35	20
Total purchase costs, costs of subcontracted work and operating expenses	-815	-774
Depreciation and impairment of property, plant and equipment	-241	-223
Own work capitalised	144	131
Operating profit	**169**	**144**
Financial income/(expenses)	-21	-19
Result from associates and joint ventures	10	-
Profit before tax	**158**	**125**
Tax	-39	-33
Results after tax	**119**	**92**

- Net turnover rose by € 56m to € 1,046m This is mainly due to an increase in regulated tariffs and higher transported volumes for large corporate customers
- Other income: incidental sales proceeds of € 15m related to the sale of the shareholding in the German entity 450Connect. The total book result on the sale of the shareholding in 450Connect amounts to € 10m
- Purchasing costs, outsourced work and operational costs have increased from €774m to €815m. Causes: higher TenneT rates, personnel costs €15m higher due to an increase in the collective labor agreement and a growth of the workforce by approximately 100 FTE, purchasing costs for network losses €7m higher
- Depreciation charges rise by € 18m
- The result after tax from associates and joint ventures of € 10m comes mainly from the revaluation of our remaining interest in the German entity 450Connect (€ 9m)
- The net result in 2021 is €119m compared to €92m in 2020.

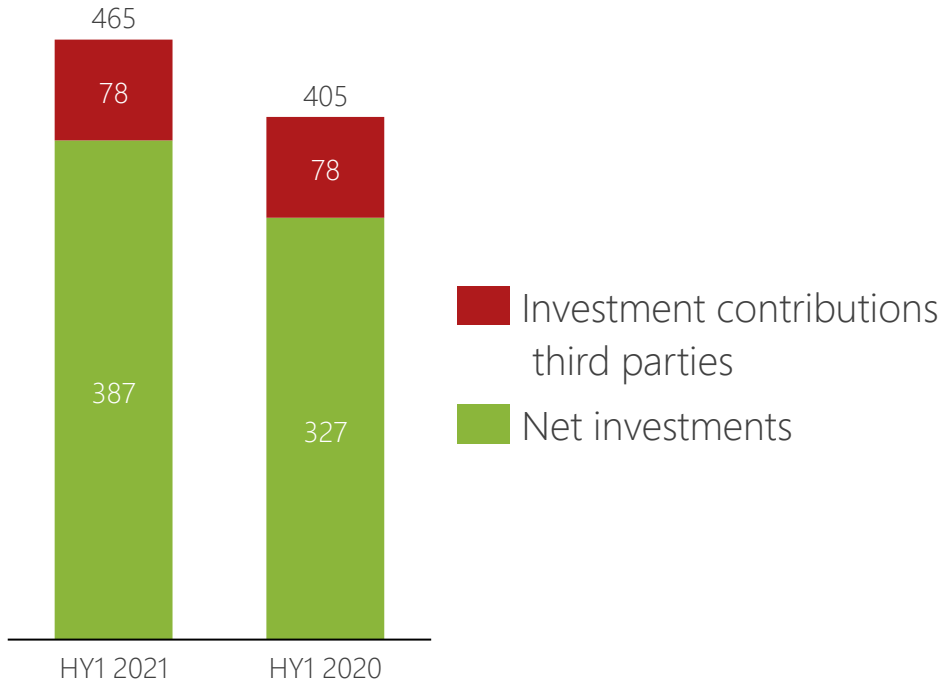
Investments € 60m higher

in € million

Gross investment in PPE



Third party contributions and net investments

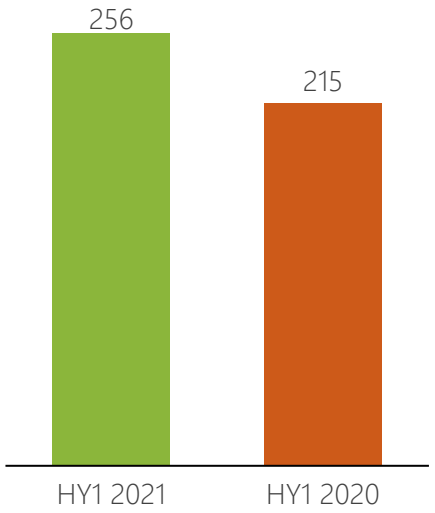


- Gross investments are € 60m higher than the first half year of 2020. Investment level increased due to higher investments in our grids (+ € 74m).
- The lower investments in metering devices (- € 15m) is caused by the phasing out of the roll-out of smart meters.

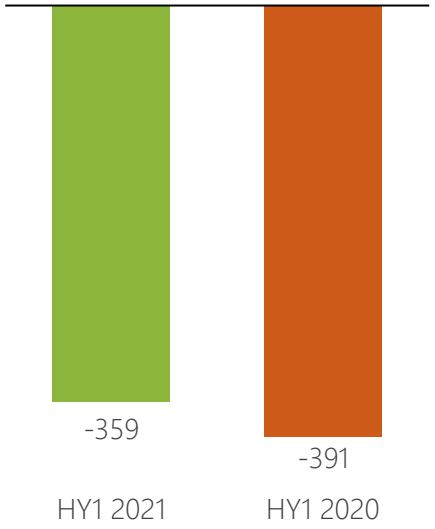
Higher investments leads to financing requirements

in € million

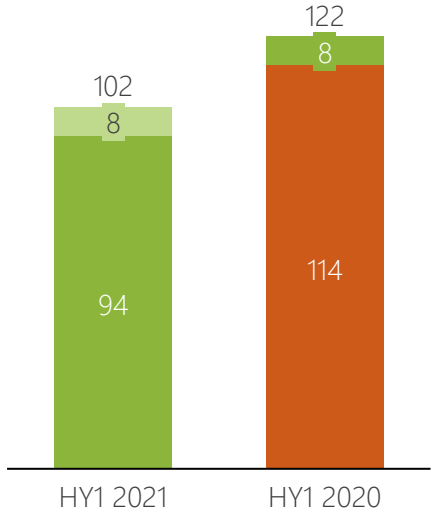
Cash flow from operating activities



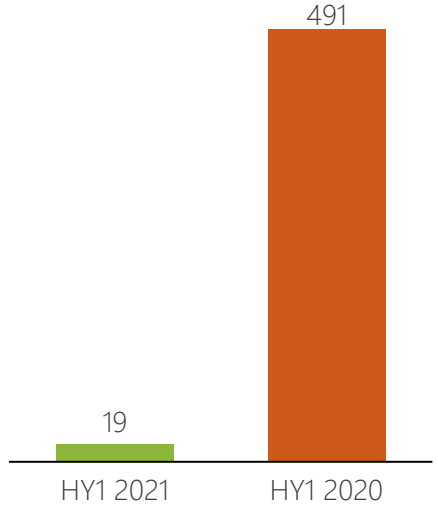
Cash flow from investment activities



Dividend paid and reimbursement of bondholders



Cash flow from financing activities[1]



1. Including dividend paid and reimbursement of bondholders

- Cash flow from operating activities increased by € 41m This is due to the higher net result in 2021 and lower prepaid income tax.
- Cash flow from investing activities amounts to €359m in the first half of 2021 and is €32m lower. Cause: the sale of a majority stake of 450Connect GmbH in 2021 (€ 28m) and the purchase of TReNT in 2020 (€ -64m).
- Dividend payment in 2021 is € 20m lower due to a lower result.
- The cash flow from financing activities amounted to €19m in the first half of 2021. This cash inflow concerns attracted ECP (€125m), partly offset by the dividend paid. The decrease compared to 2020 is mainly due to the fact that € 732m in loans was raised in the first half of 2020.
- On balance, € 84m was withdrawn from cash.

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Financial policy

Financial framework

- FFO/Net debt: Minimum 15%
- FFO Interest cover: Minimum 3.5x
- Net debt/capitalization: Maximum 60%
- Solid A rating profile
- Comply with regulatory criteria for the network operators

Dividend policy

- Stable dividend
- Pay-out: 45% of profit after tax, adjusted for periodic reimbursement on loans processed through equity and for incidental items, unless investments or financial requirements require a higher addition to general reserves
- Solvency at least 30%

General principles

- Part of corporate policy and strategy
- Balance between lender protection and shareholder return
- Financial capacity and discipline
- Enforcement buffer against regulatory requirements
- Flexibility to grow and invest
- Transparent reports
- No structural subordination

Explanation of main changes in financial policy
(effective as of May 31, 2021)

Financial Framework

- Adjusted: Minimum FFO/Net debt ratio from 20% to 15%

  → Rationale: to bring the minimum required value more in line with the limits used by rating agencies for an A rating

- Removed: on a standalone basis qualification to minimum required A rating profile

  → Rationale: to make more financing space available by considering present or future rating surcharge by public shareholding

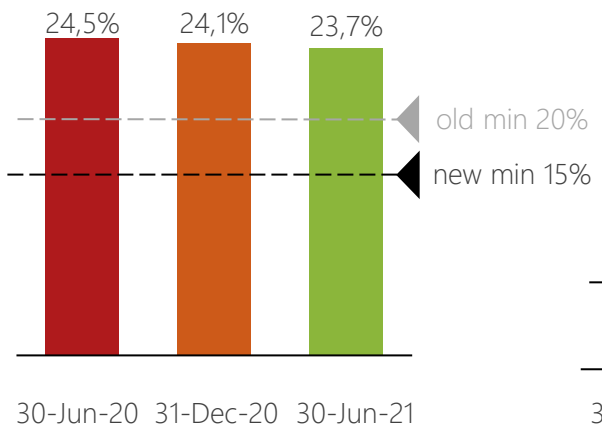
Dividend Policy

- Added: additional adjustment to the result after tax of periodic fees for loans recognized through equity

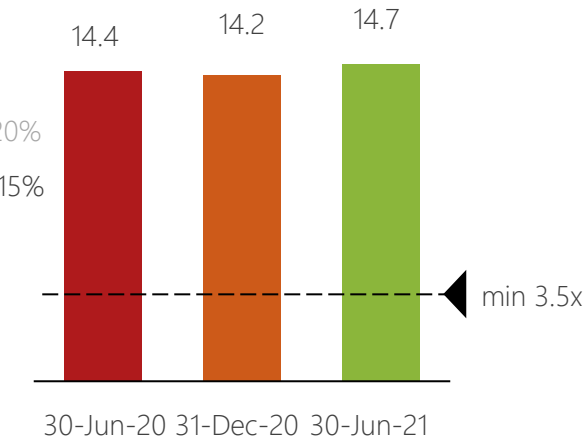
  → Rationale: equating the treatment of the periodic consideration for existing hybrid bond with that of the proposed convertible hybrid shareholder loan for the calculation of the basis for dividend payment

Declining trend FFO/Net debt ratio but adjusted minimum requirement gives additional room while retaining an A rating profile

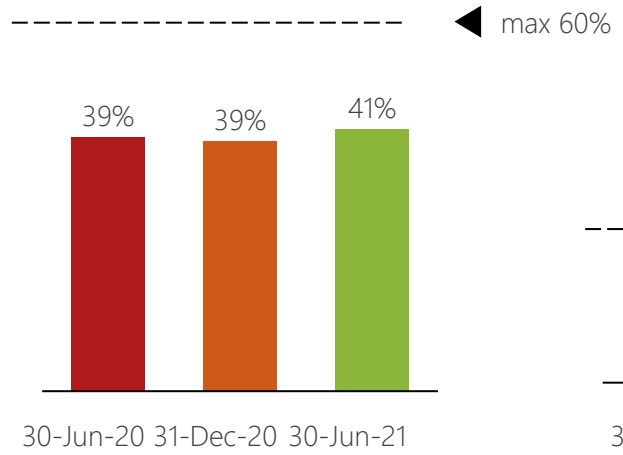
FFO / Net debt



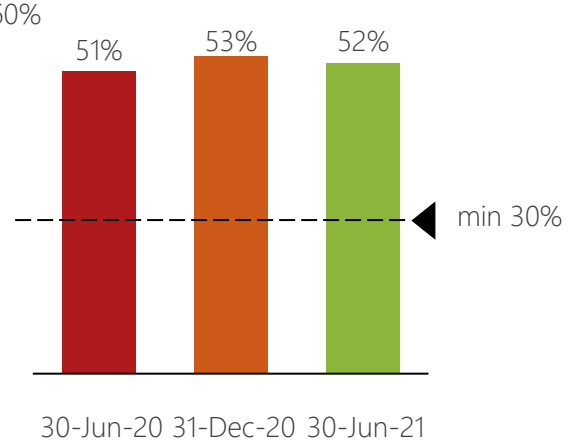
Interest coverage



Net debt / capitalisation



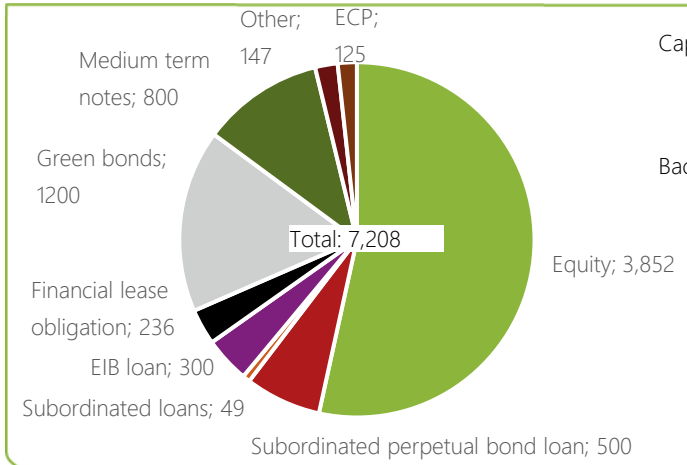
Solvency



Financial position

in € million

Capitalisation



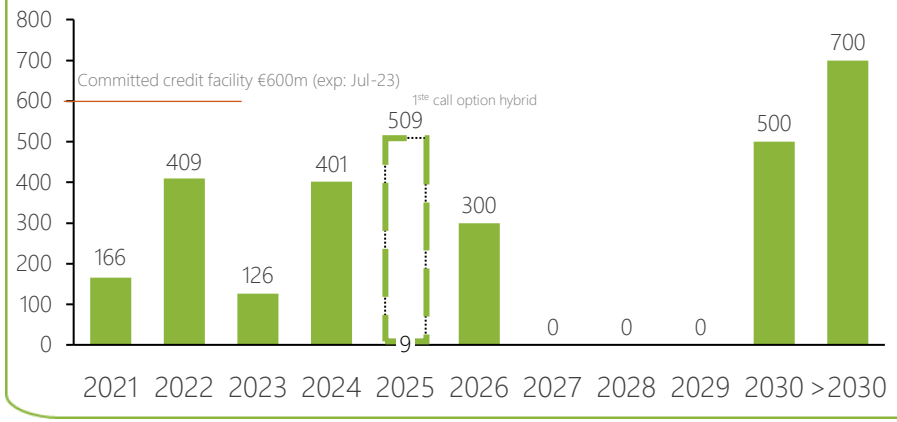
Capital Market Programs
- EMTN 3,000
- ECP 1,500

Back up credit facility:
- RCF 600

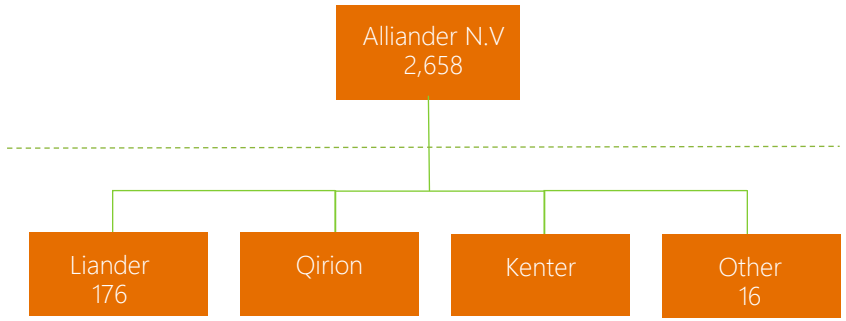
Gross and net debt

Gross debt (including lease obligations)		2,850
Cash and equivalents	214	
Current financial assets	-	
CBL investments	153	
Total cash and investments		367
Net debt according to IFRS		2,483
50% of the perpetual loan		248
Net debt according to financial policy		2,731

Maturity profile[1]

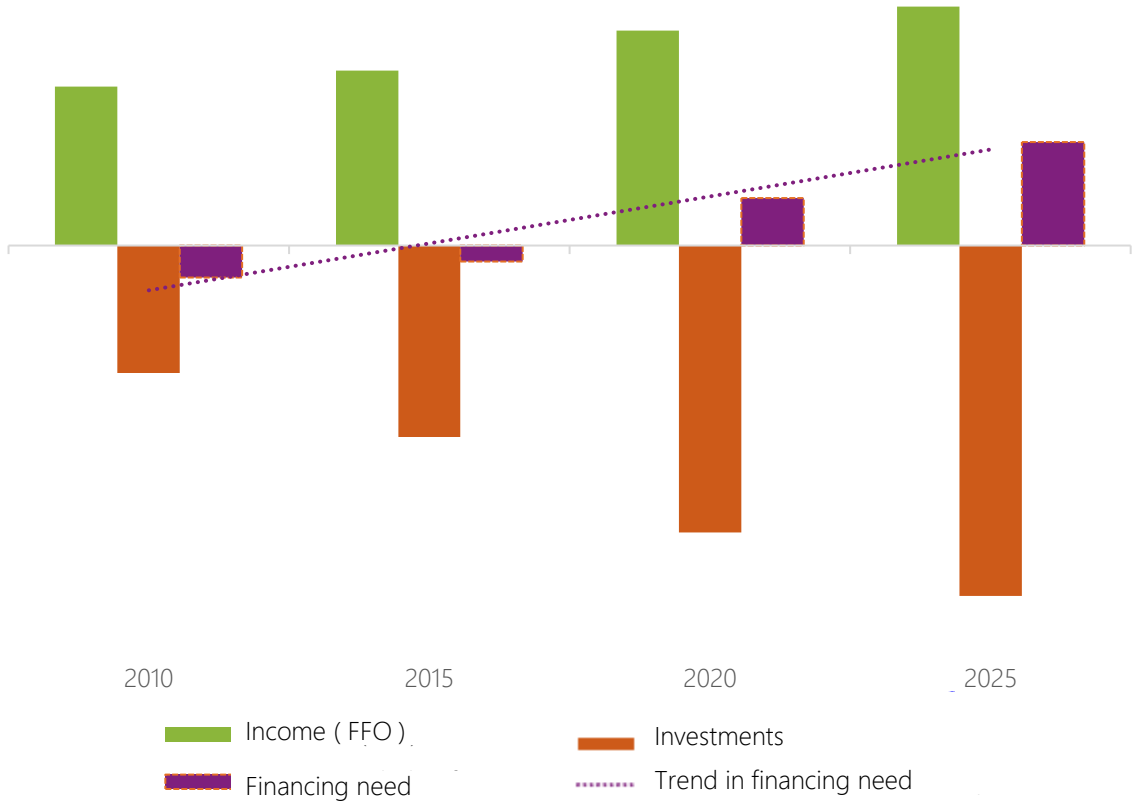


Location of gross debt (€ 2,850m)



1 Excluding € 236 million lease obligations

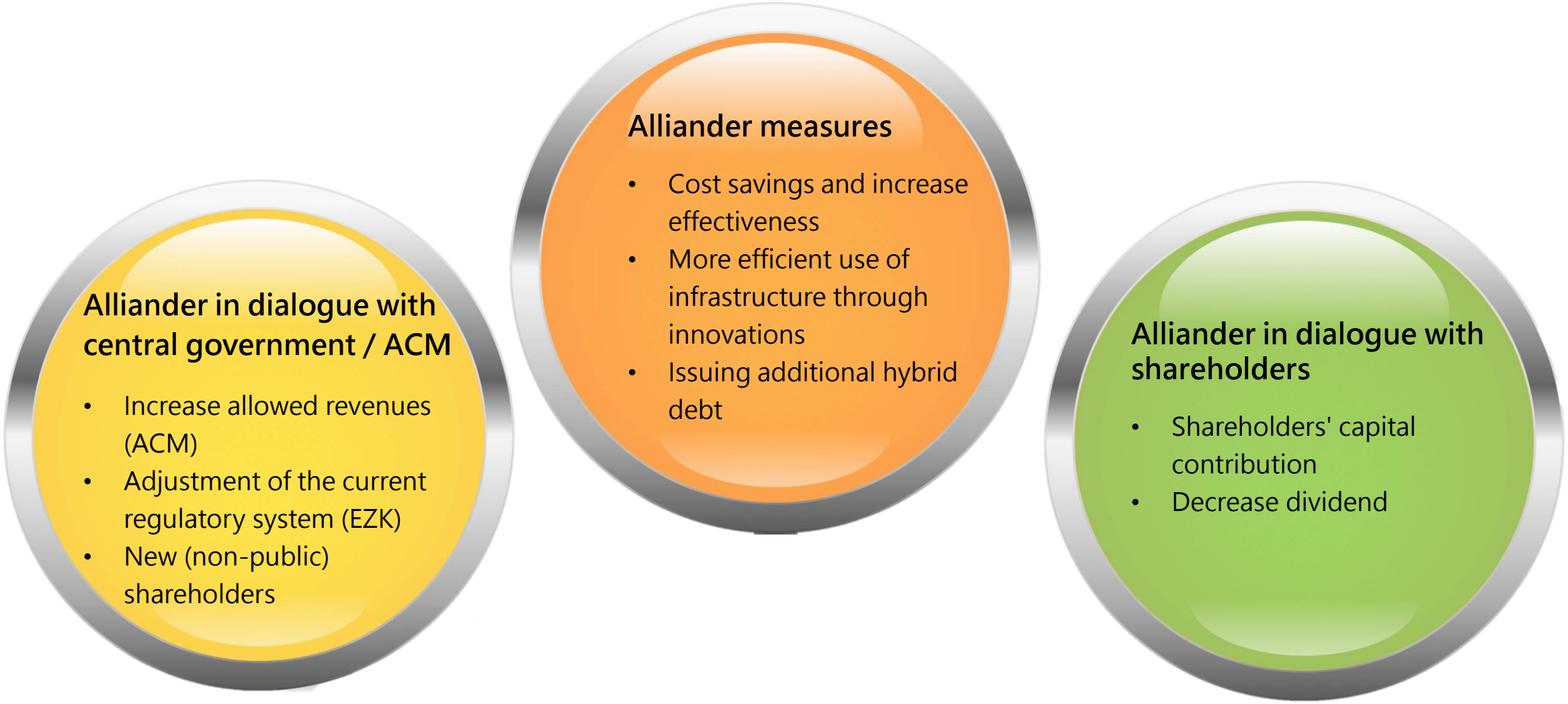
Alliander's financing needs are growing strongly



Income expressed in FFO Funds From Operations. Chart shown for illustration

- The strong increase in investments leads to substantially higher depreciation.
- Depreciation period of approximately 40 years
- Revenue growth lags investment growth
- Long payback period leads to the need for pre-financing
- As a result, the need for financing is increasing sharply.
- A rating profile under pressure

Alliander follows three tracks to increase funding capacity



Request to shareholders to participate in convertible loan

Key terms and conditions

Type of loan	Reverse convertible hybrid loan
Principal amount	€ 600 mln
Maturity	60 years unless previously redeemed or converted
Fixed rate period	Rate is fixed every 10 years
Fixed rate interest	Market-based surcharge of 1.975% above 10-year swap rate
Ranking	Subordinated, pari passu with existing NC 7½ Year Hybrid Loan @1.625%
Cumulative interest payment	There is a possibility to defer interest payment, but interest is always paid
Equity credit	S&P: Intermediate 50%, Moody's: none
Conversion rate	To be determined upon conversion based on independent valuation
Conversion conditions	1) FFO/Net debt below 16% 2) Credit rating below A flat or A2 or on Credit Watch Negative
Expected issue date	December 2021

- Shareholders have been asked to participate pro rata in a loan that can be converted into shares under certain conditions

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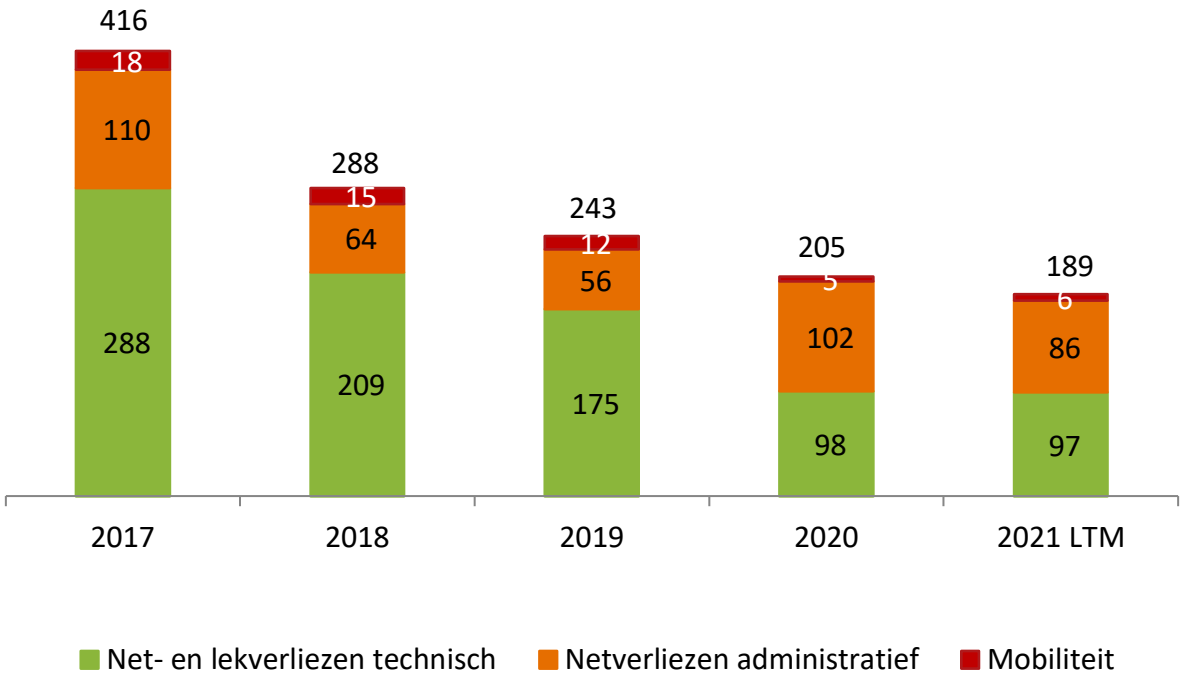
Carbon neutral operations in 2023

Alliander's net CO_2 emissions own operations



Climate neutral operations

- In the last twelve months Alliander's CO2 emissions fell by 16 kilotons, a reduction of approximately 8% compared to the same period in the previous year
- Alliander's objective is to have climate-neutral business operations by 2023
- The greening of electricity grid losses is taking place via guarantees of origin from newly constructed wind farms in the Netherlands
- Gas grid losses are being partially greened with green gas certificates from the Netherlands and partially via CO2 credits of the Gold Standard type
- Mobility is partly greened by renewable generation at substations
- On balance, buildings are energy-neutral due to on-site renewable generation and are therefore no longer included in this overview.

Top notch ESG ratings

MSCI ESG RATINGS

AAA

CCC	B	BB	BBB	A	AA	AAA

(report date: 28 mei 2021)

SUSTAINALYTICS

a Morningstar company

(report date: 27 mei 2021)

Corporate ESG Performance

Prime

RATED BY ISS ESG

Absolute Rating

D-	D	D+	C-	C	C+	B-	B	B+	A-	A	A+

(report date: 22 oktober 2020)

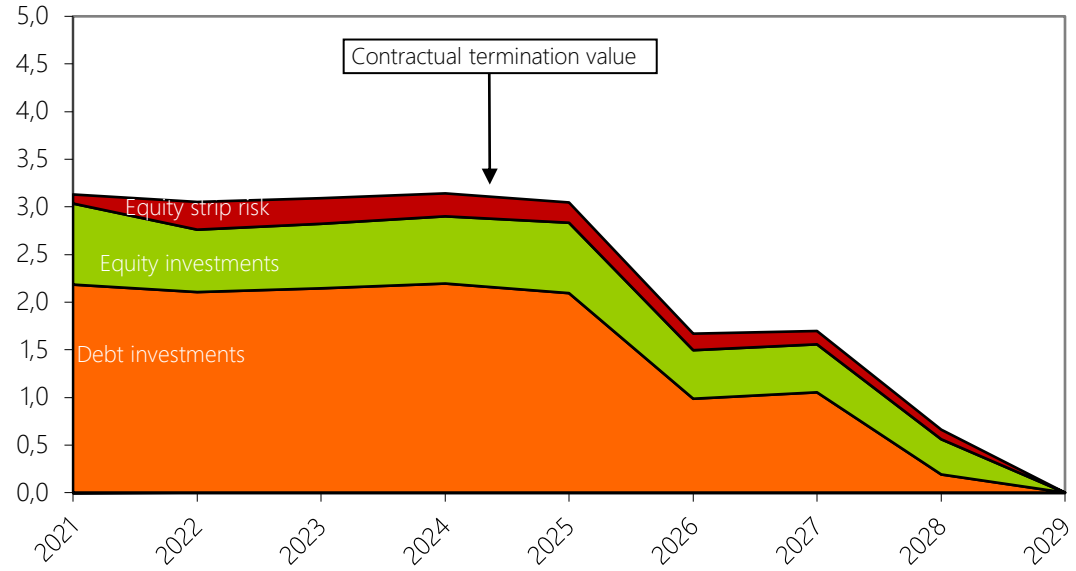
Cross border leases

CBL related risks

US leases	3 leases 30 June 2021	3 leases 31 Dec 2020
in USD million		
Equity strip risk	93,0	71,8

Overview Letters of Credit	30 June 2021	31 Dec 2020
in USD million		
Issued	-	-
Additional L/C's at A3/A-	73,3	52,6
Additional L/C's at Baa1/BBB+	22,4	25,1

Contractual termination values and coverage (in USD billion)



CBL related risks

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

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 2020 financial statements of Alliander N.V., which can be found on www.alliander.com.

This presentation has not been audited.