Alliander N.V.
Presentation
Half-Year results
2018

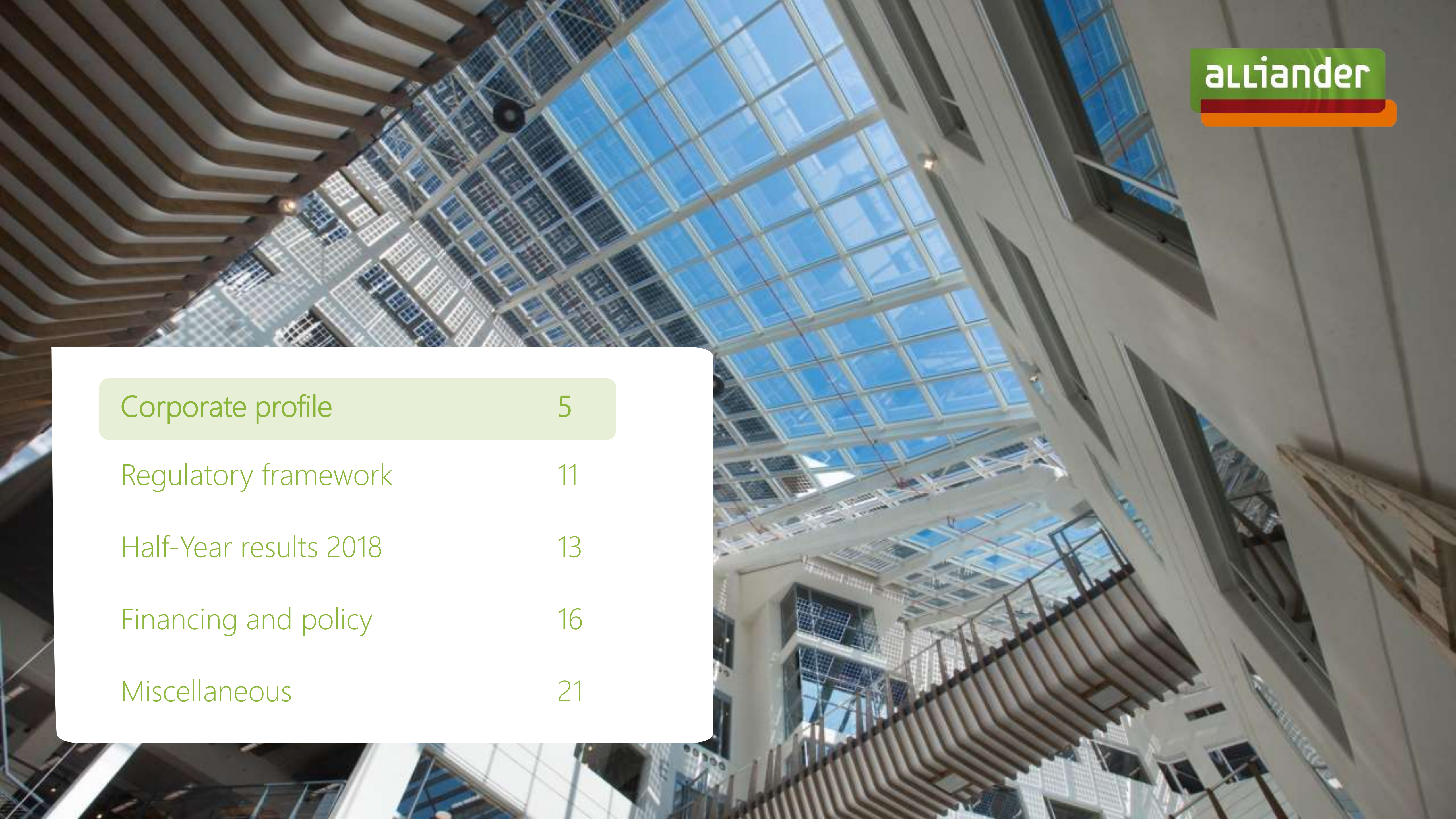
27 July 2018

Credit profile Alliander

Leading network company in NL	• Largest regional energy network company in the Netherlands • 3.1 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 (2017-2021) just commenced providing 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 grid quality is maintained • Smart meter offering on schedule
Sustainability leadership	• Highest Oekom rating amongst utility peer group at Prime B+

Highlights 2018

Financial	• Profit after tax increased to € 227 M (2017H1: € 93m) including incidental item of € 106m from book profit on the sale of Allego; Profit after tax excluding incidental items and fair value movements rose by € 31m compared to 2017H1 • Revenue increased to € 952M (2017H1: € 886m) • Operational expenses slightly higher at € 780M (2017H1: € 762m) • Gross investment up to € 345M (2017H1: € 292m). Net investment amount to € 295M. (2017H1: € 245m) due to third party contributions
Strategic	• Sale of Allego completed • More focus on feasibility of the workload, energy transition portfolio, heat transition and cost savings
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 • Plans for 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 • Increase in electricity outage duration to 29.3 minutes in past 12 months (30-June-17: 21.1) due to two major disruptions



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Alliander, network company

Half Year 2018 in figures

Revenue

952 € m

886 € m 1sthy 2017

Investments

345 € m

292 € m 1ehy 2017

Total assets

8.4 € bn

8.1 € bn in 2017

Net profit

227 € m

93 € m 1sthy 2017

Outage electricity

29.3 minutes

21.1 minutes 1sthy 2017

CO_2 Emissions

274 kton

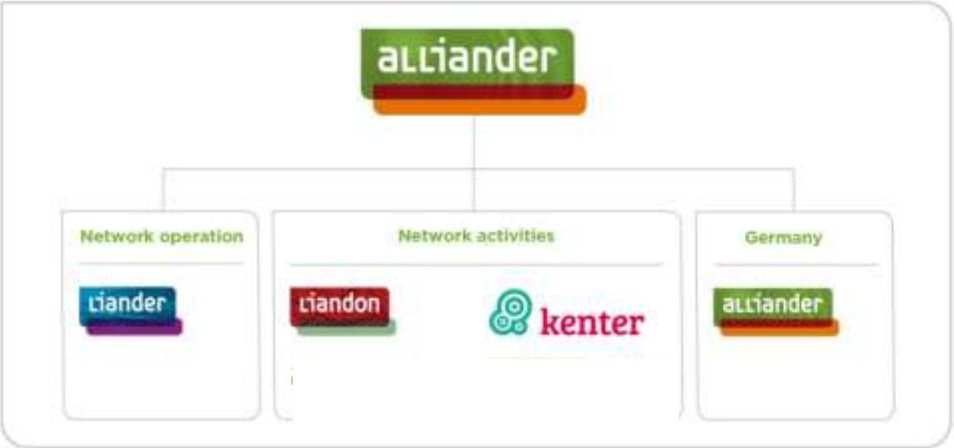
336 kton 1sthy 2017

Rating

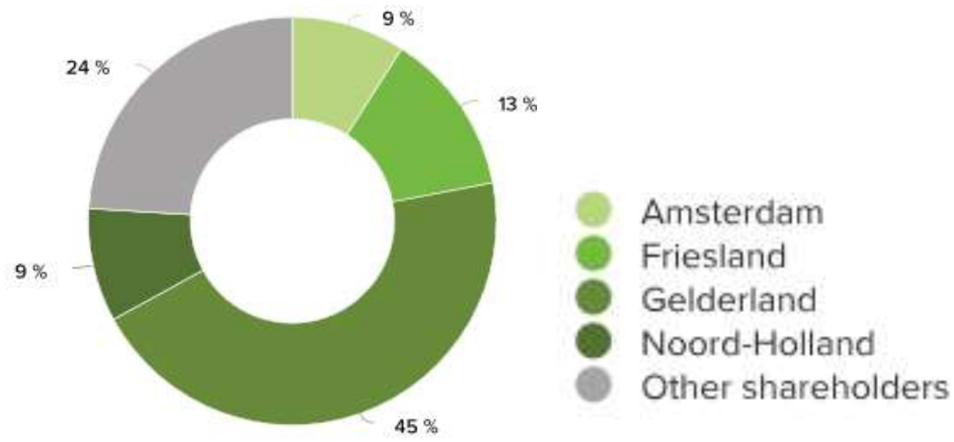
Rating

S&P AA-/A-1+/stable outlook
Moody's Aa2/P-1/stable outlook

How we are organised

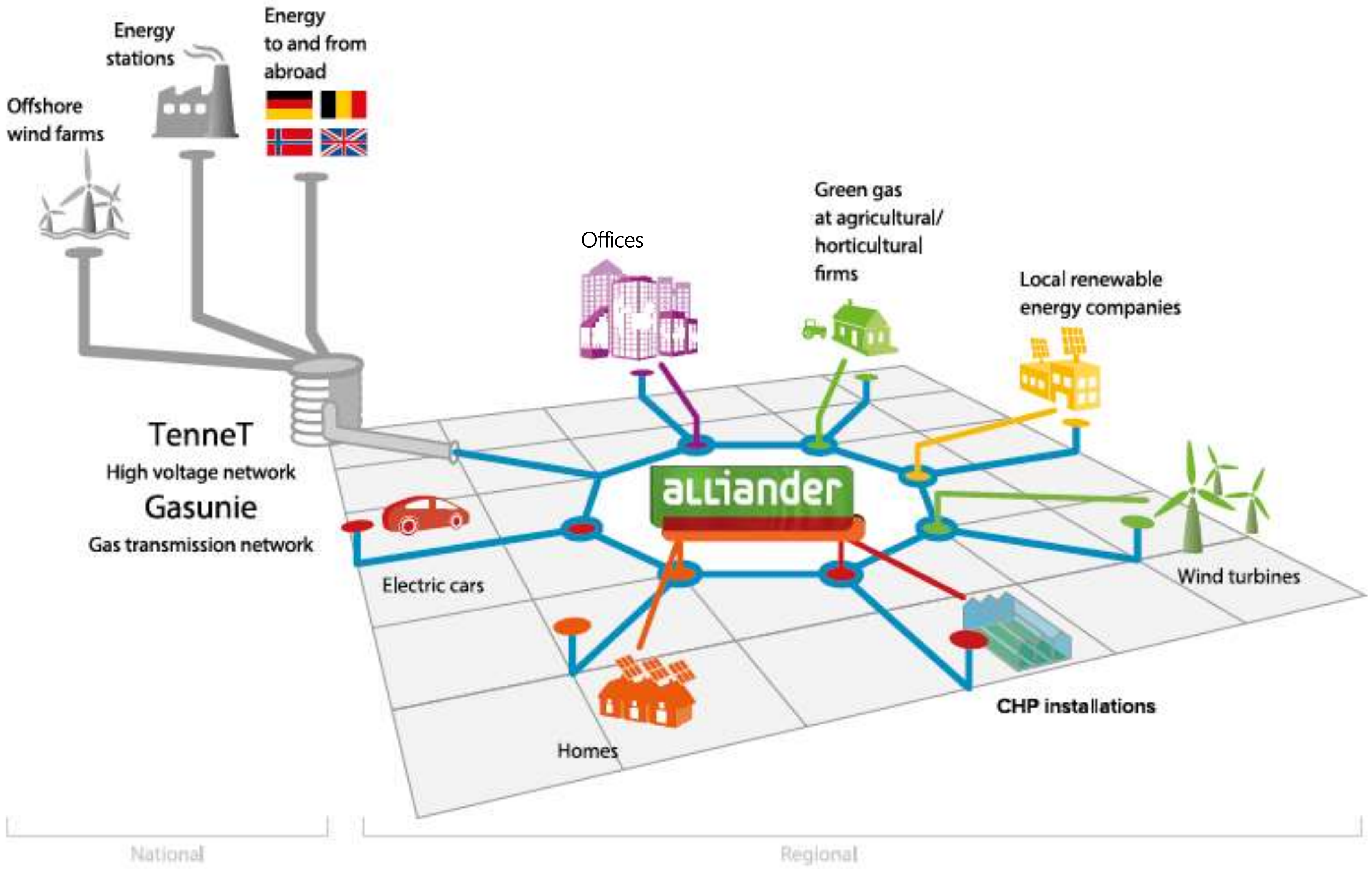


Our shareholders



Alliander in the energy chain

Alliander operates in regional gas and electricity distribution



The Alliander 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

Energy transition will have impact on energy networks

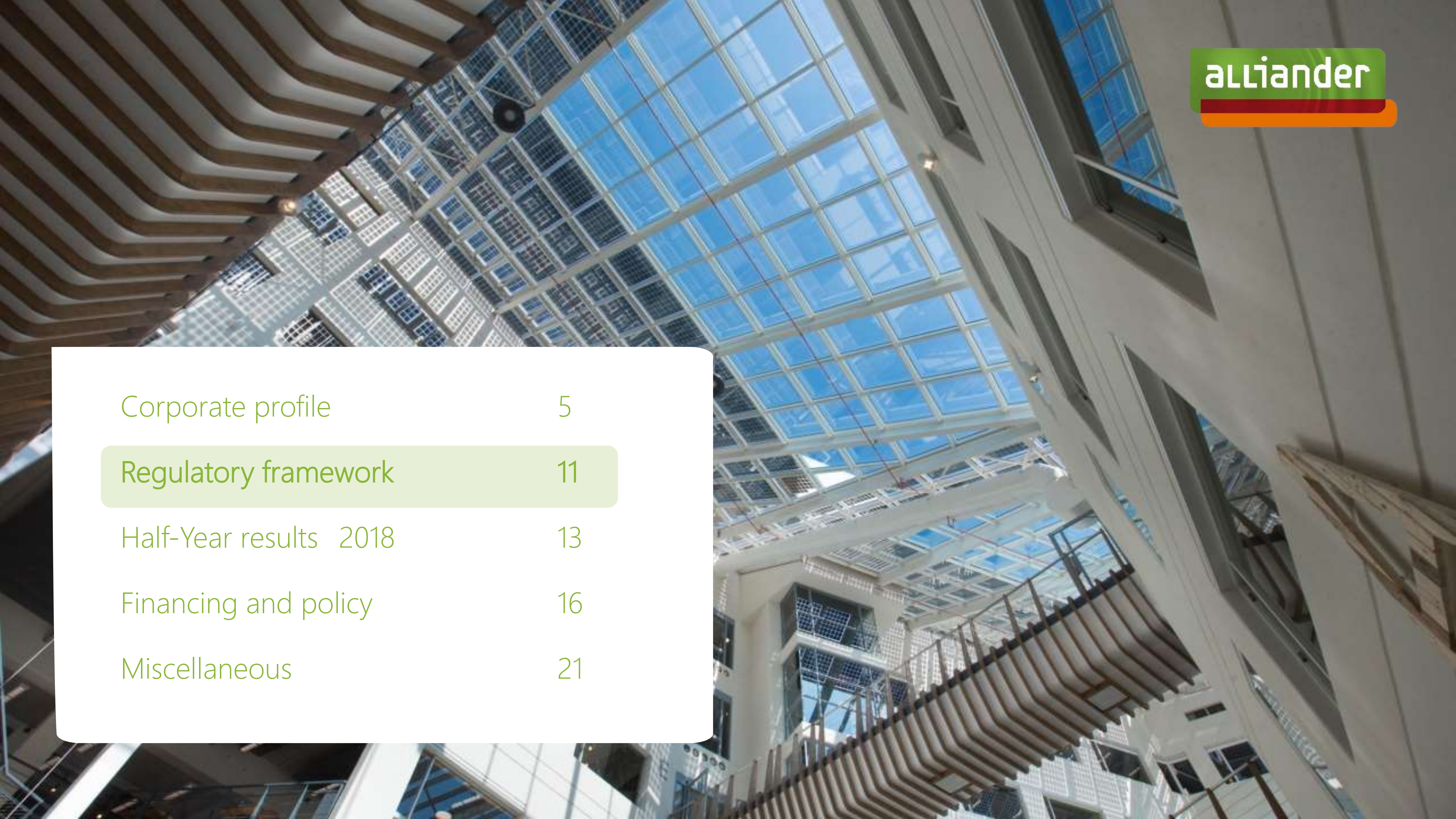
alliander

Impact	Further increased by:
In time natural gas will be replaced by other heating solutions	1. Accelerating energy transition Increasingly rapid growth in local renewable generation and use
Higher peak loads on the electricity grid	
New types of grids may not be open	2. Economic growth requiring more investment

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 savings	Cost savings to enable future increasing investments

and: using knowledge and tools for the benefit of others



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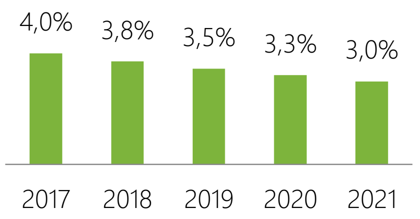
Regulatory framework

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
- Method decisions for electricity and gas applying to the 2017-2021 period have been annulled by the Trade and Industry Appeals Tribunal (CBb). ACM needs to make new method decisions within 6 months. WACC is expected to increase slightly. (July-18)

Regulated real WACC



Legislation

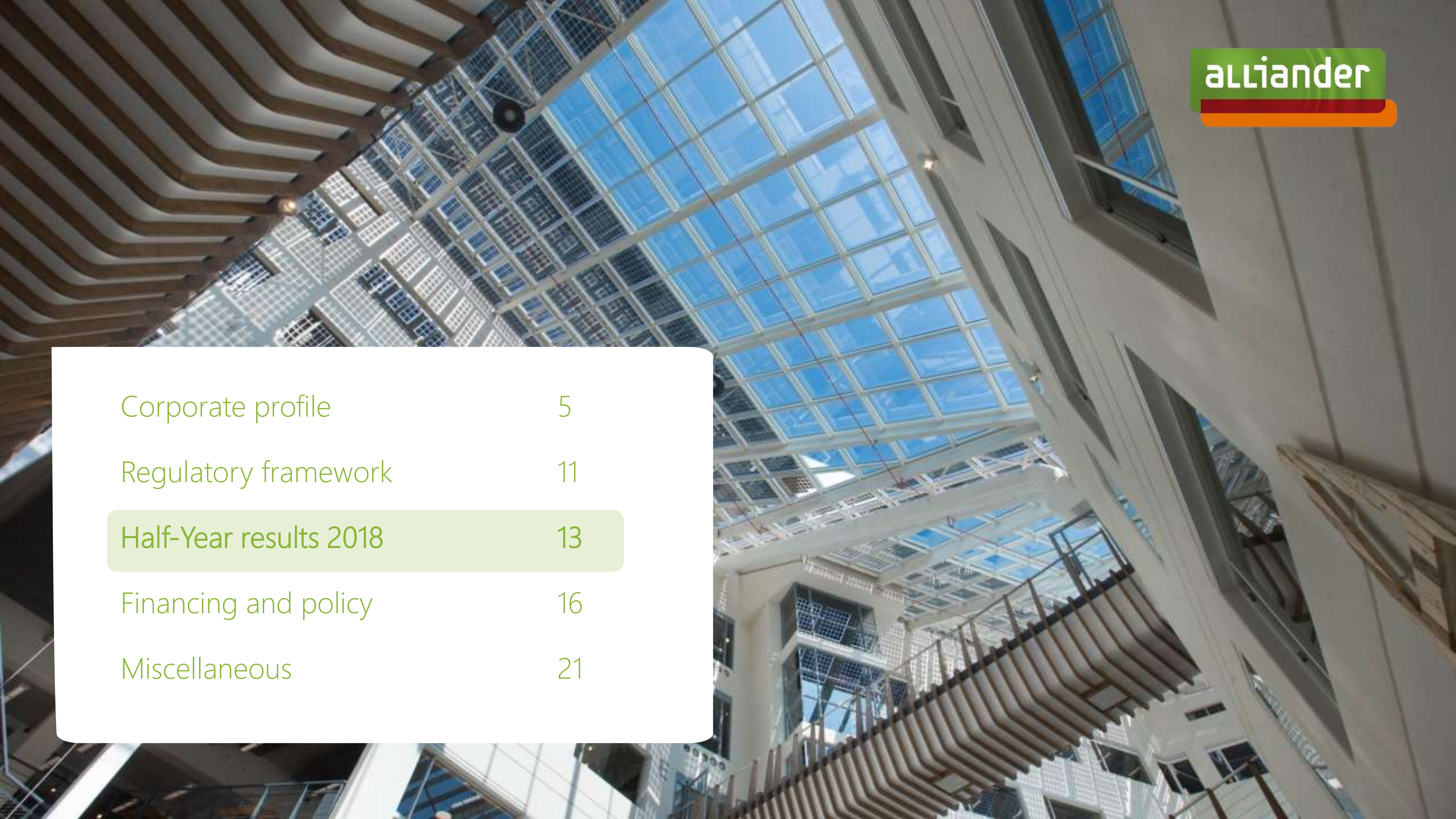
- Streamlining of the existing Electricity and Gas Acts
- Proposed Energy Transition Bill (VEt) came into effect as of 1 July 2018 and is implemented in phases
- Financial impact of VEt for Alliander assessed as neutral

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 designated areas the regional network operator will be exempt from the legal obligation to connect homes to the gas network



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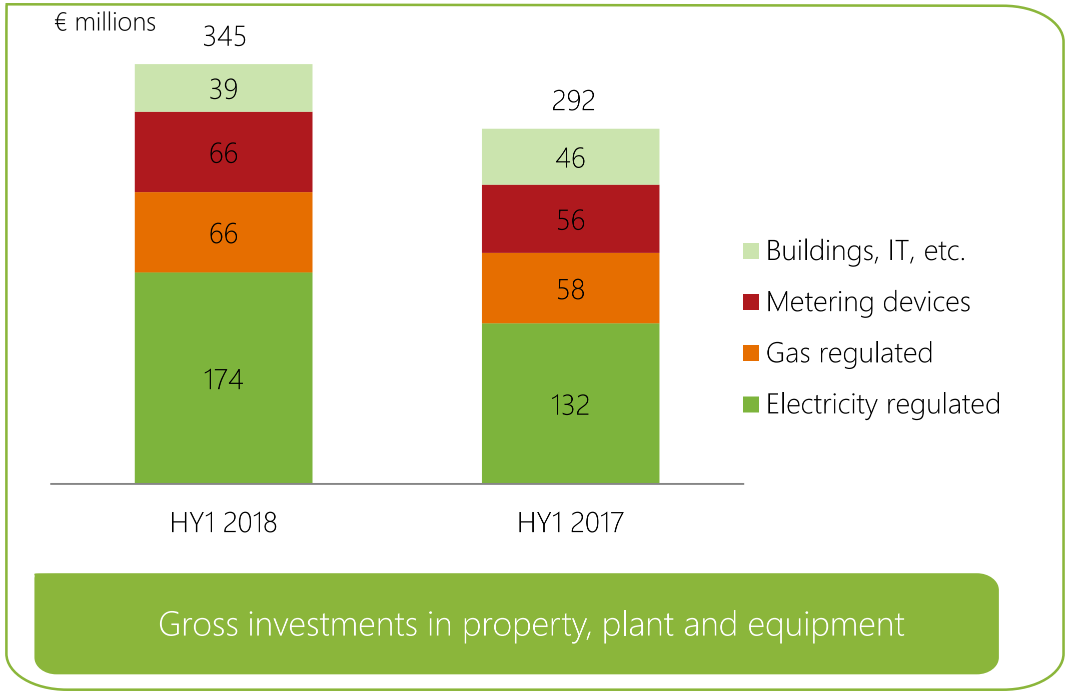
Higher net profit due to sale of Allego

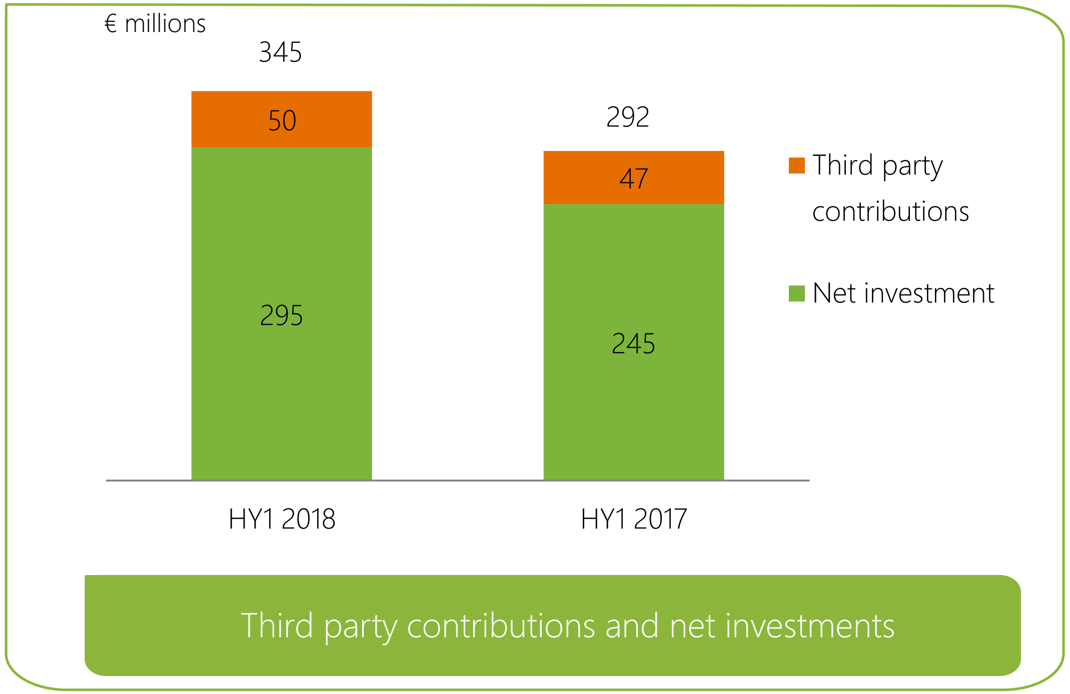
€ million	Reported 2018	Reported 2017 [1]
Revenue	952	886
Other income	121	23
Total purchase costs, costs of subcontracted work and operating expenses	-701	-673
Depreciation and impairments	-198	-192
Own work capitalised	119	103
Operating profit (EBIT)	**293**	**147**
Finance income/(expense)	-21	-21
Result from associates and joint ventures	-	-2
Profit before tax	**272**	**124**
Tax	-45	-31
Profit after tax from continuing operations	227	93
Profit after tax	227	93

- Net income went up by € 66m compared with the first half of 2017, due to higher regulated tariffs (taking into account the sufferance tax effect).
- Purchase costs, costs of subcontracted work and operating expenses increased by € 28m This was among other things due to higher staff costs (both intern and external staff) by a total of € 13m, and higher purchase costs and costs of subcontracted work by € 14m. Both related to growth in the work package.
- Profit after tax was up by € 134m compared 2017H1, mainly due to the book profit on the sale of Allego (€ 106m).
- Further more there was an incidental item of € 5m in the costs of purchasing, subcontracted work and operating costs in H1 2018. These costs were related to organizational adjustments (H1 2017: € 1m).
- Excluding incidental items and fair value movements, net profit increased by € 31m compared to 2017H1.

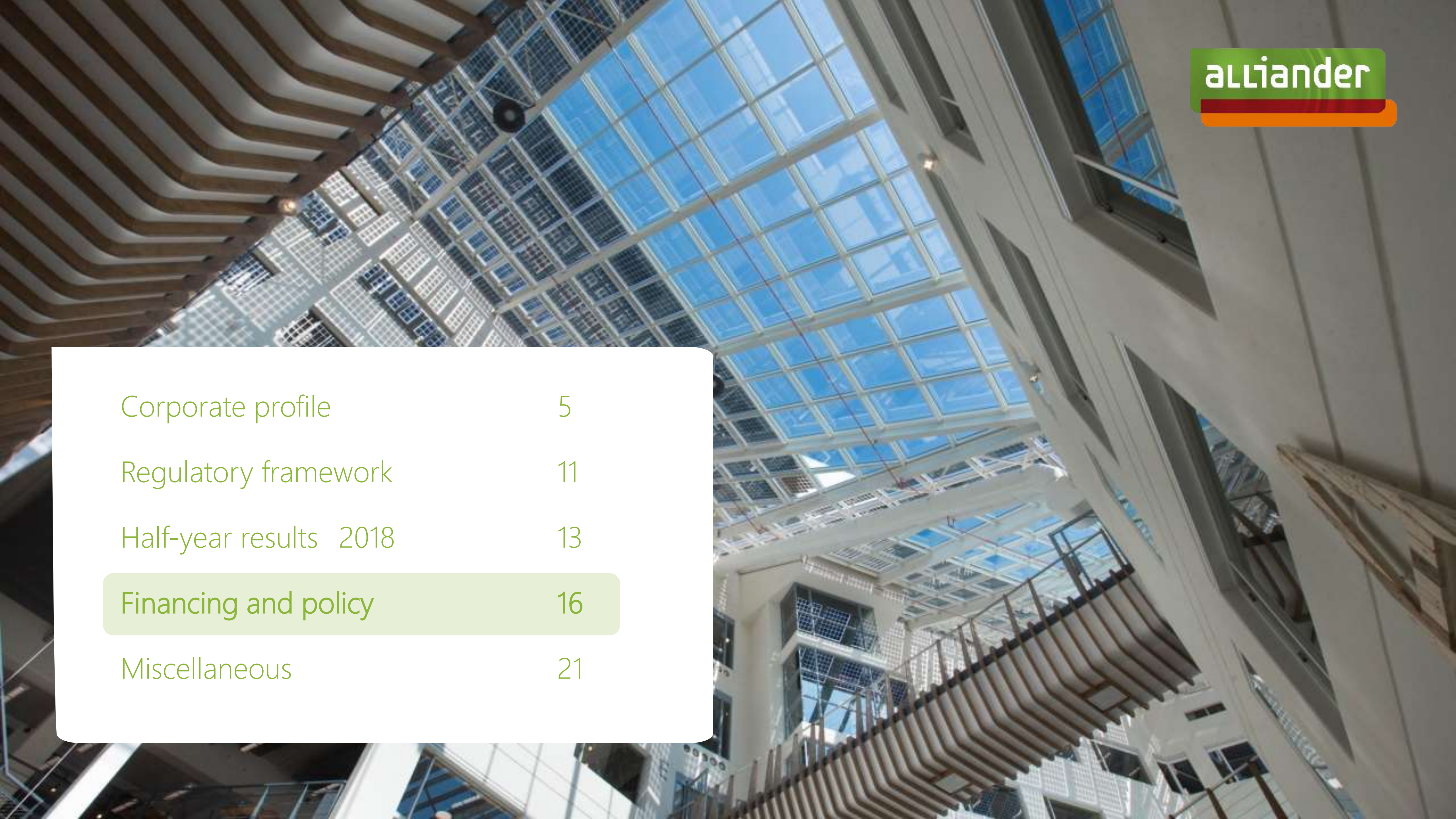
1: As a result of the implementation of IFRS 15 from 1 January 2018, amortisation of construction contributions from customers has been reclassified from Other income to Net income. The comparative numbers for 2017 have been adjusted.

Investments





- Gross investments € 53m higher than the first half of 2017.
- Investment level higher due to increase in investments in our electricity grid and the distribution of smart meters.
- The difference of € 50m between gross- and net investments is caused by third party contributions (2017H1: € 47m).
- Capital expenditure on the electricity and gas grid amounted to € 240m (2017H1: € 190m), subdivided into € 141m (2017H1: € 104m) for expansion, and € 99m for replacing existing distribution systems (2017H1: € 86m).



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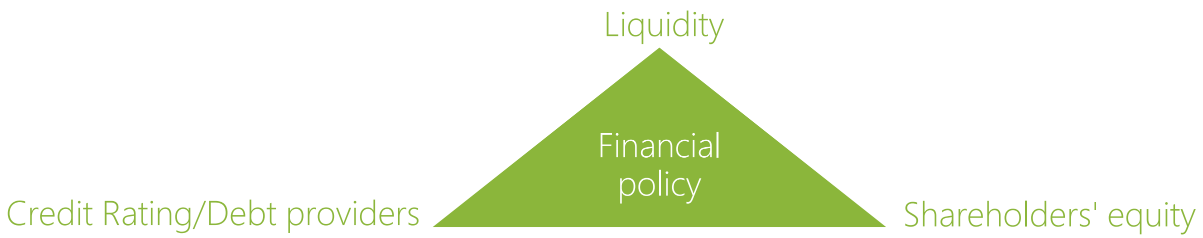
Financial policy



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

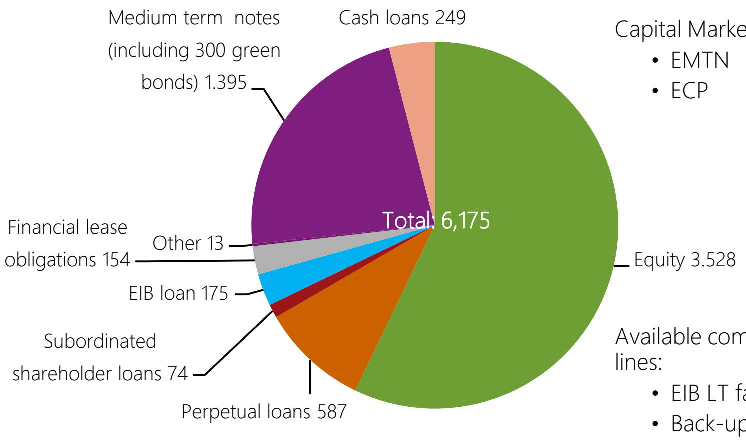
- Stable dividend
- Pay-out: 45% of after-tax profit, adjusted for incidental items, unless CAPEX from regulatory obligations or financial criteria require higher retained earnings
- Minimum solvency of 30%

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

Financial position

in € millions



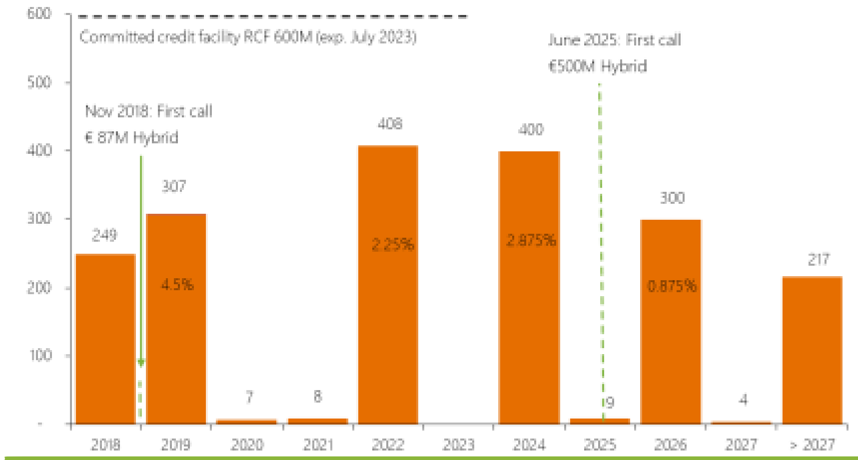
Capital Market Programs
- EMTN 3,000
- ECP 1,500

Available committed credit lines:
- EIB LT facility 125
- Back-up RCF 600

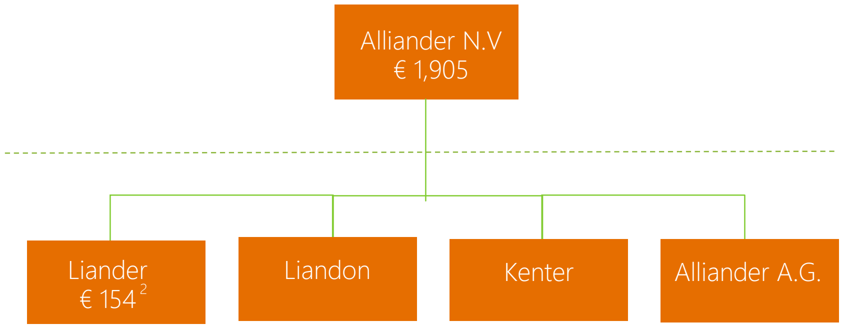
Capitalisation

Gross debt (including CBL related financial lease obligation)		2,059
Cash	277	
CBL investments	154	
Total cash & investments		431
Net debt according to IFRS		1,628
50% of the perpetual loan (2018)		248
100% of the remaining perpetual loan of 2013		87
Net debt according to the financial policy		1,963

Gross and net debt



Maturity profile [1]



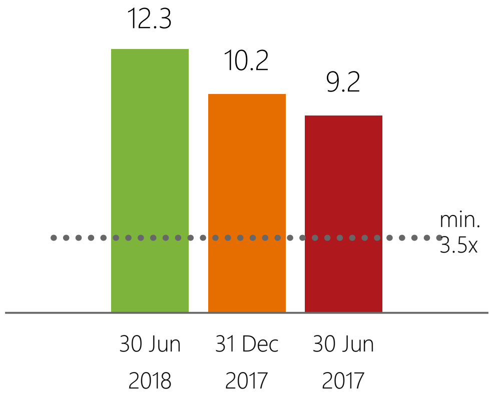
Location of debt

1 Excluding €154m in financial lease obligations

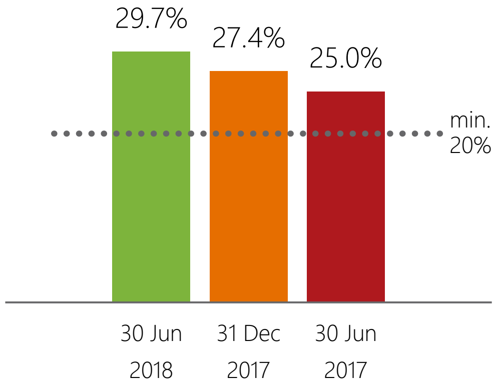
2 Financial lease obligations

Financial ratio's

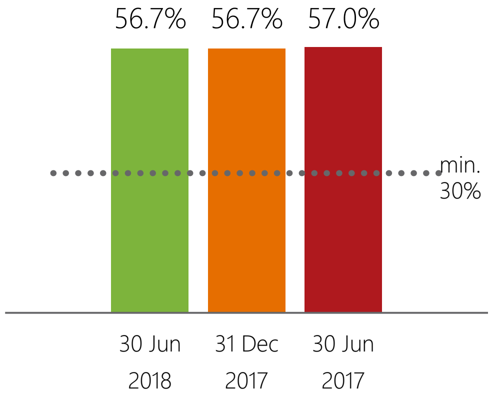
Well within financial policy framework[1]



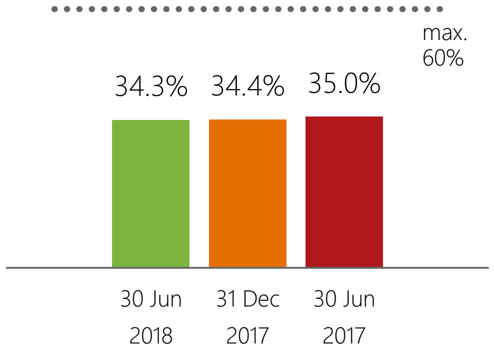
Interest coverage [2]



FFO/Net debt [3]



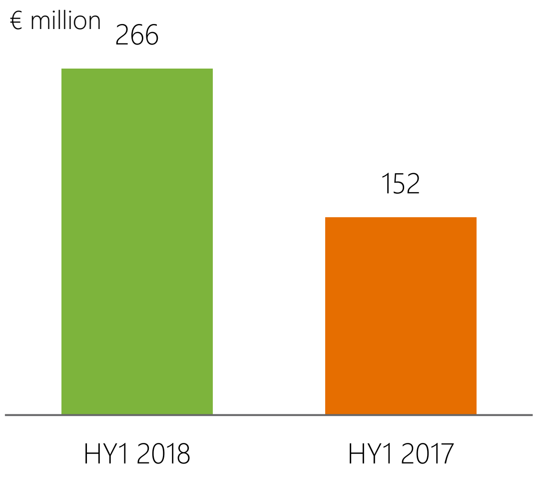
Solvency [4]



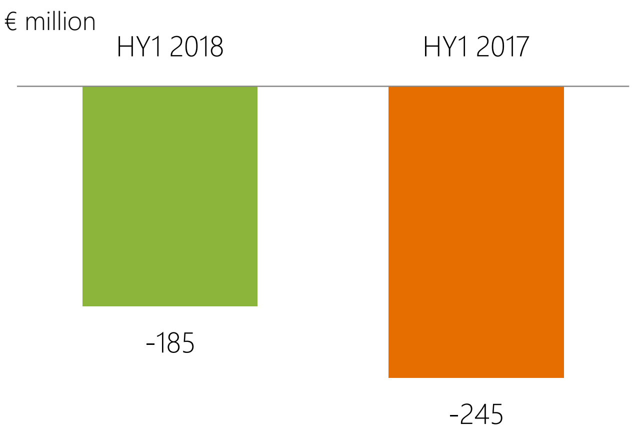
Net debt/capitalisation [5]

1. 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/capitalization: net debt divided by the sum of net debt and equity

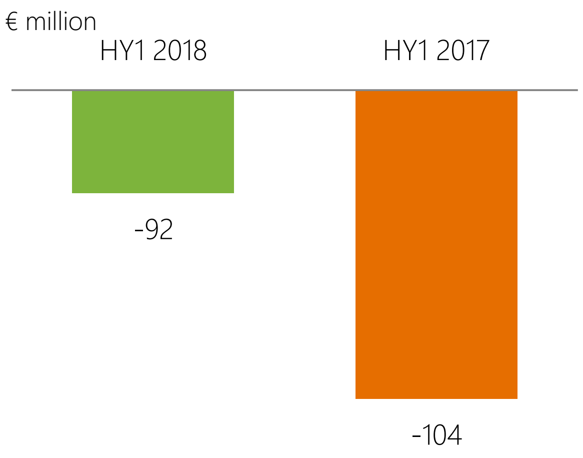
Lower financing need as a result of sale of Allego



Cash flow from operating activities

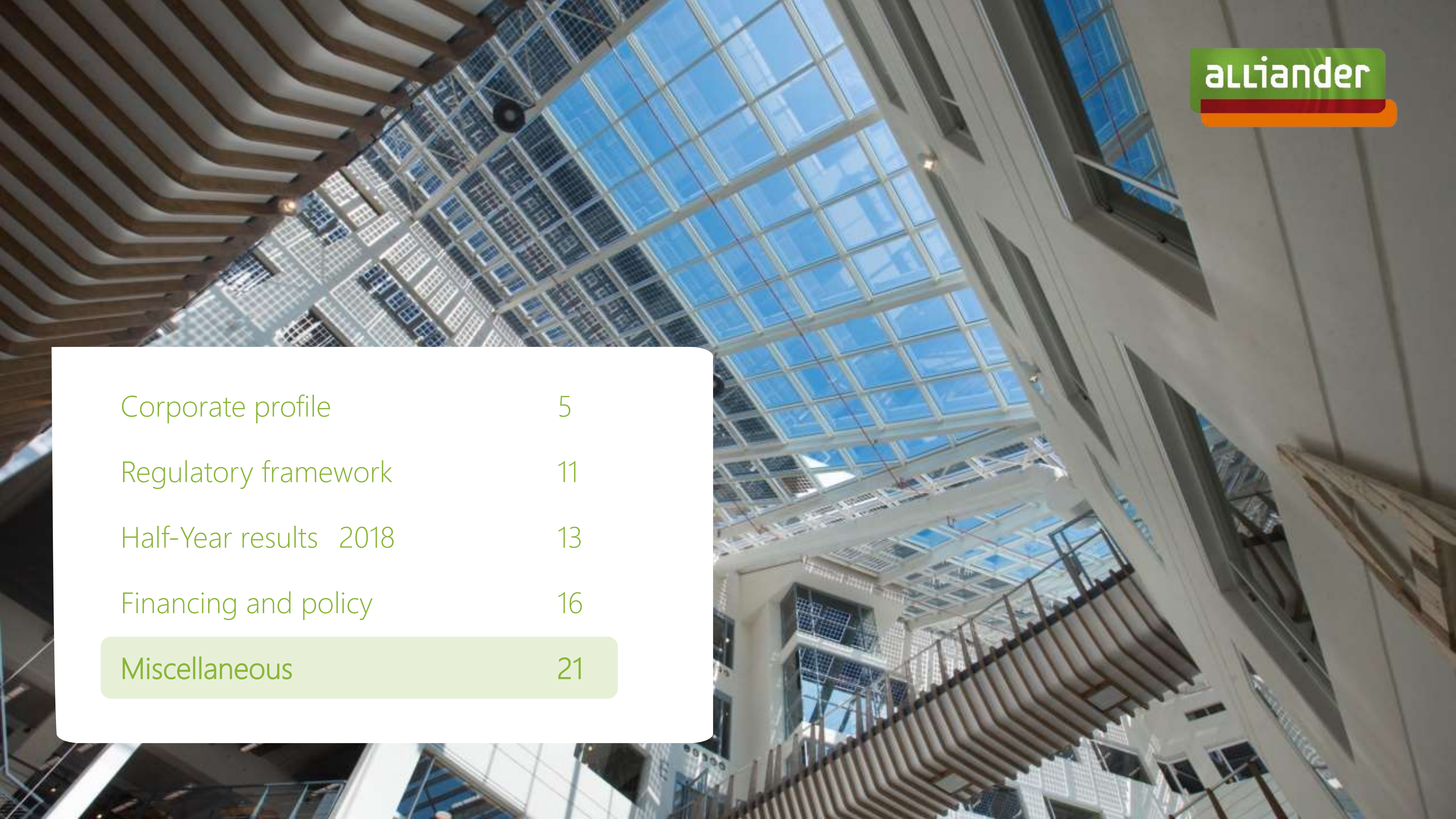


Cash flow from investing activities



Cash flow from dividend

- Cash flow from operating activities increased.
- Cash flow from sale subsidiairies is incorporated in cash flow from investing activities.
- Dividend is in line with financial policy.
- As a result of higher investments, financing needs expected to increase in the coming years.



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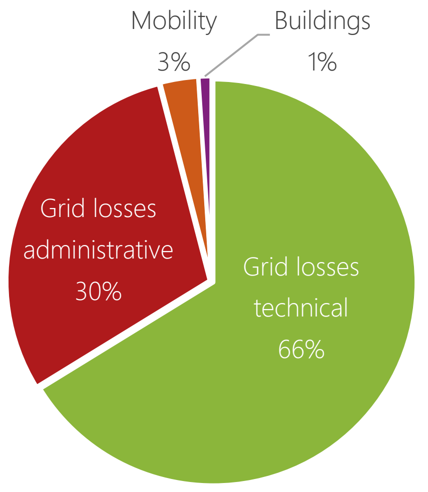
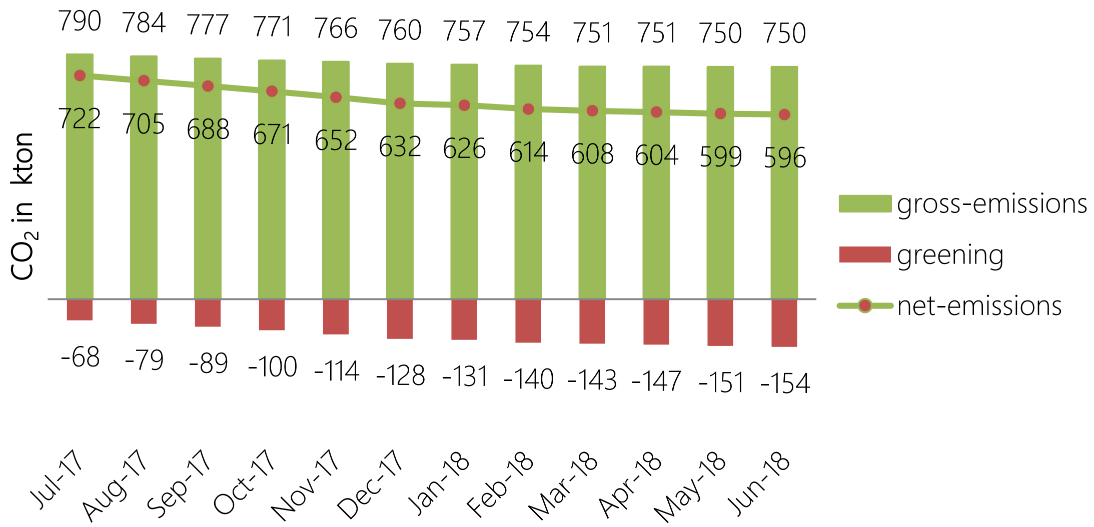
Carbon footprint decreases

Target 2023: CO_2 neutral



Composition carbon footprint



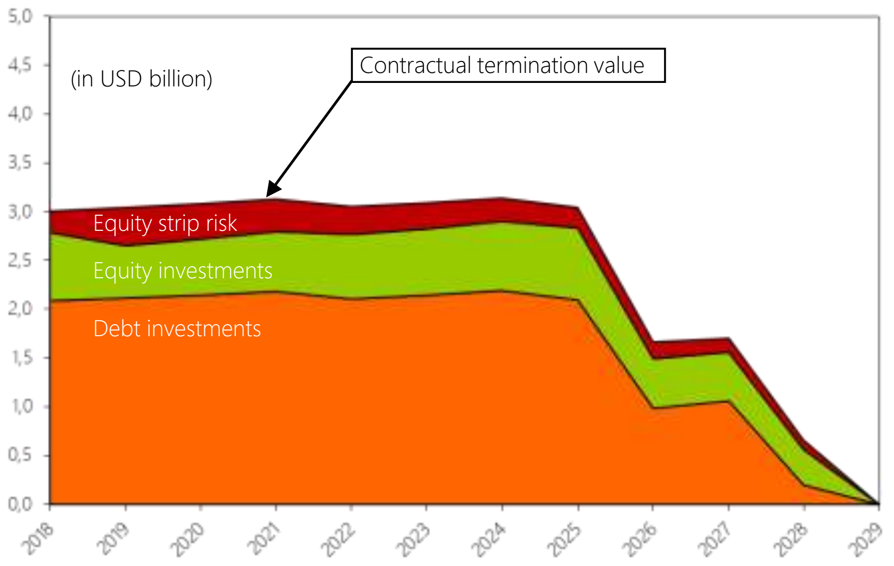
Carbon emissions

- Alliander CO_2 policy is based on trias energetica: reducing energy consumption (among others by more efficient assets, climate neutral buildings Duiven and Bellevue), making energy consumption sustainable as well as making the remaining energy consumption as efficiently as possible.
- Use of sustainable energy to compensate carbon footprint ('greening') increased in the past 12 months to 154 kton
- Net CO_2 emissions last 12 months 596 kton
- CO_2 neutral target in 2023, i.e. no CO_2 emissions on balance due to our network activities, offices and vehicles
- CO_2 emissions mainly come from technical grid losses. This is energy loss (in the form of heat) due to energy resistance during transport of electricity

Cross border leases

US leases	3 leases 30 June 2018	3 leases 31 Dec 2017
in USD million		
Equity strip risk	220,1	186,2

Overview Letters of Credit	30 June 2018	31 Dec 2017
in USD million		
Issued	-	-
Additional L/C's at A3/A-	167,7	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 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., Liandon B.V., Alliander Duurzame Gebiedsontwikkeling B.V., Kenter B.V. and Alliander AG among other entities. Liander refers to network operator Liander N.V. and its subsidiaries. In this presentation, the names of the various entities are also used without including the abbreviations for the legal structure.
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This presentation has been prepared using the accounting policies applied in the preparation of the 2017 financial statements of Alliander N.V., which can be found on www.alliander.com.

This presentation has not been audited.