# Results 2014

19 February 2015

# Disclaimer

This presentation is a translation of the Dutch presentation on the consolidated results 2014 of Alliander N.V. Although this translation has been prepared with the utmost care, deviations form the Dutch presentation might nevertheless occur. In such cases, the Dutch presentation prevails.

‘We’, ‘Alliander’, ‘the company’, ‘the Alliander group’ or similar expressions are used in this presentation as synonyms for Alliander N.V. and its subsidiaries, Liander refers to the grid manager Liander N.V. and its subsidiaries. The name Endinet refers to the Endinet group, including grid manager Endinet B.V. Stam refers to Stam Heerhugowaard Holding B.V. and its subsidiaries and Liandon refers to Liandon B.V. Alliander N.V. is the sole shareholder of Liander N.V., Endinet Groep B.V., Liandon B.V. and Alliander AG.

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This presentation has been prepared with due regard to the accounting policies applied in the 2014 financial statements of Alliander N.V., which can be found on www.alliander.com.

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# Content

# Highlights 2014

**Financial results and position**

- Reported results 2014: € 323 million (2013: € 288 million). Comparable results 2014: € 240 million (2013: € 287million)
- Results are impacted by two incidental items:
  - Release of Credit Default Swap related provision (€ 60 million after tax)
  - Transfer of 25,4% stake in KEMA to DNV GL Group for € 80 million (€ 45 million after tax)
- Revenue decreased to €1,696 million due to decrease in regulated tariffs (2013:€1,744 million)
- Total operating expenses increase slightly to € 1,399 million (2013:€ 1,378 million) due to:
  - Higher sufferance tax charges and costs passed on by Tennet (+€ 66 million)
  - Lower process and indirect costs (-/- € 42 million)
  - Stable depreciation costs (-/- € 3 million)
- Stable CAPEX
- Credit ratings:
  - S&P rating unchanged at AA-/A-1+ with stable outlook
  - Moody's rating unchanged at Aa3/P-1 with stable outlook
- Sustainability rating:
  - Oekom rating upgraded to B+ from B (7 July 2014)

**Operational developments**

- 12-month average electricity outage duration decreased to 19.9 minutes (Dec-2013: 24.0)
- Number of postcode areas with more than five interruptions decreases to 10 (Dec-2013: 15)
- Customer satisfaction increases to 95% for consumers (Dec-2013: 91%) and remains virtually stable at 84% for businesses (Dec-2013: 85%)
- Continuation of efficiency programs

# Highlights 2014

**Strategic developments**

- Benefits from scaling of operations in the Netherlands will be attained from cooperation within sector instead of acquisitions:
  - Combined procurement of smart meter with Stedin
  - Sharing communication network with Stedin to read out smart meters
- Pending a focus on growth in the Netherlands, the German strategy will be limited to maintaining and acquiring small sized adjacent network concessions and investigation into possibilities to cooperate on innovation
- The investigation phase of the potential asset swapping with Enexis has been concluded. We are now in the negotiation phase. A decision is expected soon.
- Increase in pace of digitization serves two purposes:
  - Data driven asset replacement. At end of technical lifetime, assets are equipped with digital measuring devices that monitor their performance. Replacement method increasingly based on asset performance and less on perceived asset lifetime.
  - Transforming traditional networks into smart networks allows more efficient use of capacity without the need of installing more cables.
- Cooperation and digitization lead to cost savings

**Regulatory developments**

- The Advocate General's has advised the Supreme Court that the unbundling is not in conflict with EU law, but still has to be assessed for compliance with ECHR (property right). Supreme Court expected to decide on 20 March 2015
- Publication of consultation document STROOM outlining proposed future legislation
- Municipalities increasingly levy sufferance tax on Alliander activities. These expenses are now compensated for but with a delay.
- Large scale offering of smart meter to customers started in 2015

# Content

# Major trends in the energy sector

1. Increasing focus of society on sustainability and energy saving:
   - Making homes more sustainable by applying e.g.:
     - PV panels
     - Heat pumps
     - Insulation
   - Growth in electric transport
   - Experimenting with biogas and solar fields in agricultural sector
   - Development of heating networks

2. Politics and regulation
   - Nationale Energieakkoord includes agreements on sustainability and energy saving targets: by 2020 14% of all energy needs to be generated in a sustainable way (2014 level: ± 5%)
   - Intended integral revision of E and G legislation (STROOM) aimed at streamlining, optimizing and modernizing the current legislation and providing a legal framework for the energy transition. The regulation methodology basically remains unchanged.

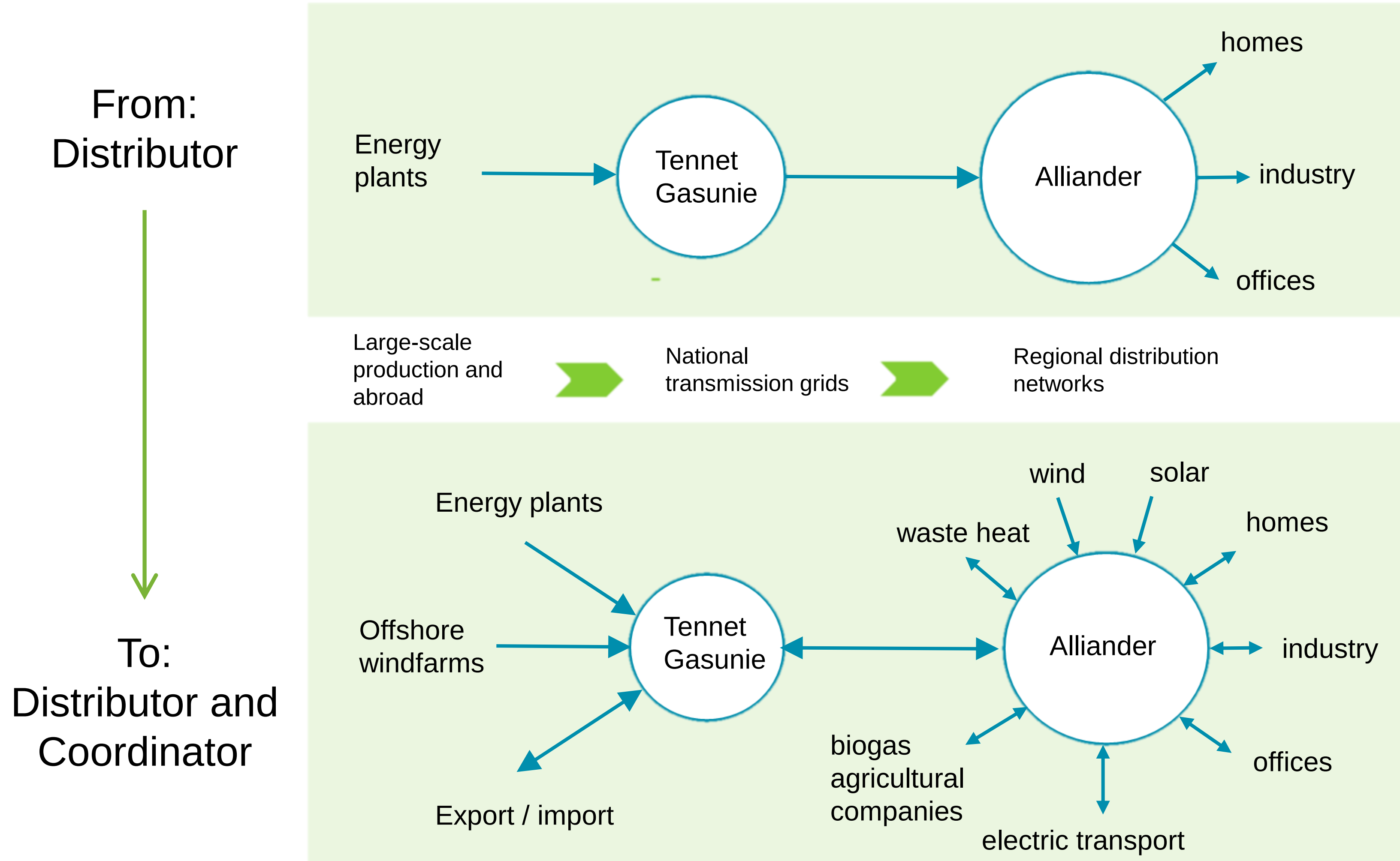
3. Information technology
   - ICT and data play an increasingly important role in the operations and services of Alliander

4. Consumer empowerment
   - Consumers jointly set up cooperatives and new energy companies

These trends are the drivers of the energy transition: the transition from energy generation from fossil fuel towards energy generation from sustainable sources. This transition is to an important extent being initiated from local, small-scale cooperatives and companies.

These trends are driving the energy transition

# The energy transition is impacting the role of the network company




Energy production and demand are converging in terms of time and location

# Alliander and the energy transition

- We are assessing the pace and scope of the trends and developments in order to determine where and when adjustments in our networks are needed

- It is important to build knowledge and experience that we can use to adapt our networks and prepare for future demands. We do this by:
  - Setting up test beds to experiment with e.g. smart grids (Amsterdam) and autonomous grids (Bronsbergen)
  - Using and evaluating new technological applications in our networks (e.g. SASensors)
  - Participating in companies that facilitate the energy transition
  - Setting up new activities that are not or inadequately picked up by the market and where Alliander, based on its core activities, can add value. This includes among others:
    - Setting up heat networks that can increase the return of waste treatment (Sustainable Area Development)
    - Creating open market platforms to facilitate the local trading of electricity (Energy Exchange Enablers)
    - Setting up electric transport infrastructure (Allego)

- Because of speed and flexibility reasons these activities are started up outside the network operator

- Uncertainty about the developments (i.e. adaptation of new technology, availability of grants and subsidy, cost developments) is modelled by using scenario analysis. By combining this analysis with e.g. practical experience with charging behavior of electric vehicle owners, ways to steer the use of electricity by deploying the price instrument and our network knowledge we can assess the impact on our networks and the need for capacity adjustments.

Alliander sees an important role for itself in the energy transition

# Energy transition and STROOM

- Project STROOM started in 2011 and aims to integrate and simplify the existing E and G legislation. The new act is also meant to stimulate and facilitate the coming period of energy transition

- The new act is still in the process of development. The actual planning is that the law passes Parliament in 2015 and will come into effect on 1 January 2016

- The new act will provide a framework with principles and guidelines that will be further worked out in secondary legislation ( Algemene Maatregelen van Bestuur). Finally the details will be set in Codes and decrees by the National Regulating Authority, ACM

- Regulatory methodology will be simplified but in essence remains unchanged:
  - Output steering based on benchmark regulation
  - In the long run the sector as a whole will be able to cover its total cost including capital cost

- Changes compared to existing legislation:
  - Allows for temporary tasks and experimenting by network operator
  - Clarification of the allowed tasks and authorizations of network operators and network companies
  - The extension of the duration of the regulatory period to 4-6 year (current period range is 3-5 year). When the period is 6 years the methodology parameters will be reassessed. This will not happen with 4 or 5 year periods

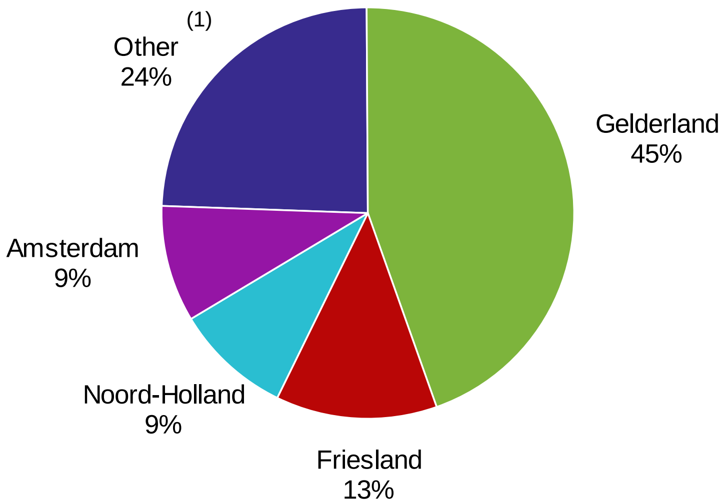
- Improvements due to intended changes in legislation
  - More stable regulatory environment without losing flexibility to react on changes in market developments
  - Simplified calculation of total allowed revenue

**Current robust regulatory framework remains in place and allows for energy transition**

# Content

# Stable public shareholder base

### Alliander Shareholders: Provinces & Municipalities



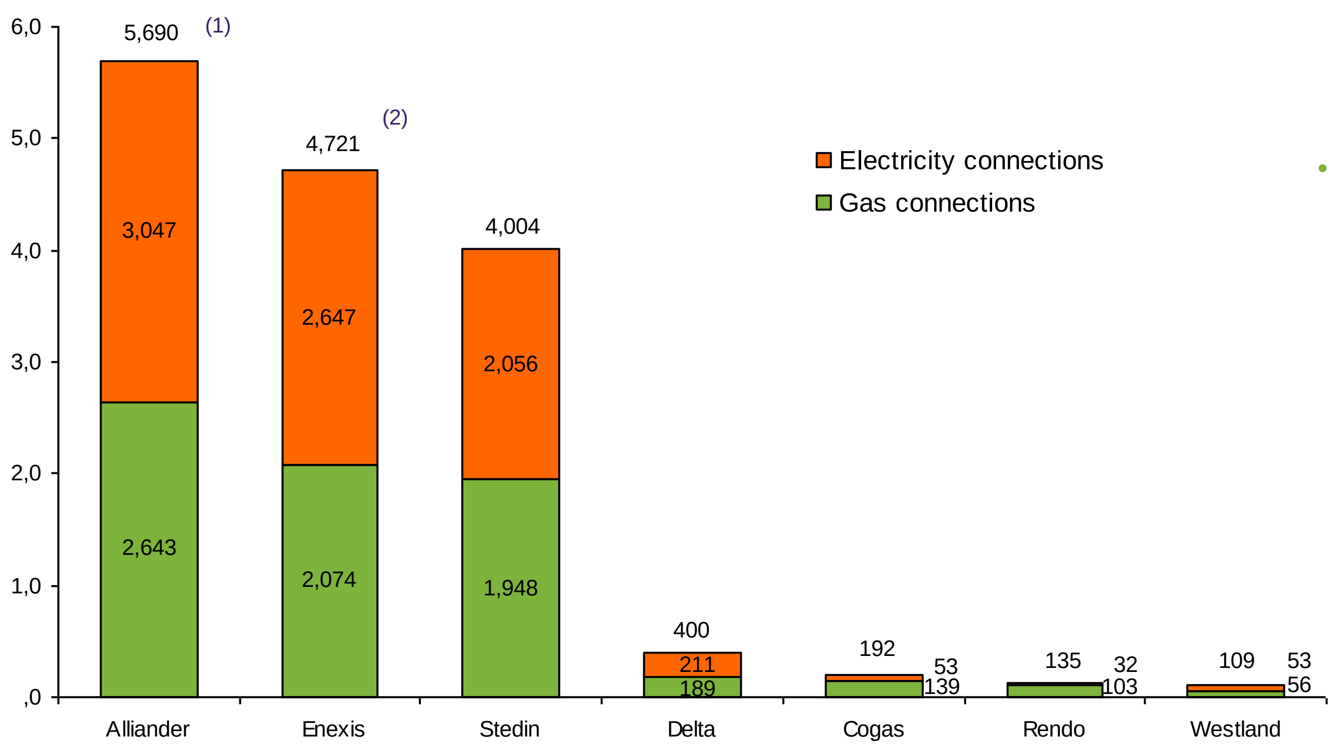

### Alliander grid coverage of regions largely coincide with the shareholders base


100% owned by Dutch provinces and municipalities and privatisation is not allowed by law

(1) Includes province of Flevoland, and various municipalities located in the provinces of Gelderland, Friesland, Flevoland, Zuid-Holland and Noord-Holland
(2) Endinet shares acquired by Alliander as per 1 July 2010

# Market position

## Number of connections (x1,000)



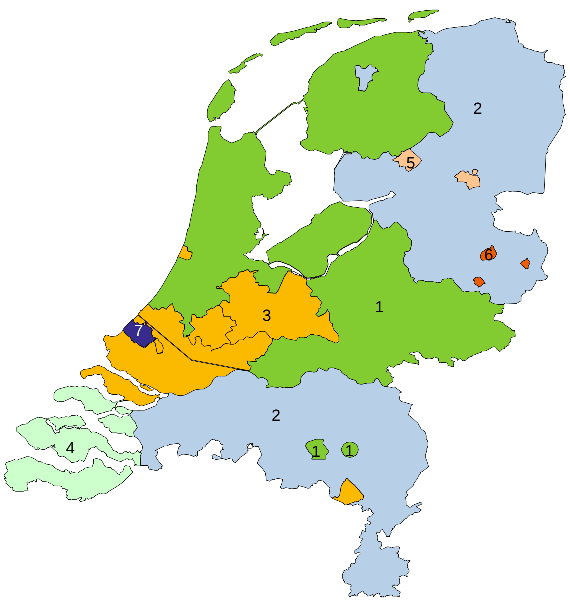

- Alliander has 3.0 million electricity connections and 2.6 million gas connections in the Netherlands
- Alliander has a market position of 37%

Source: ECN/EnergieNed/Netbeheer Nederland "Energy Trends 2014" publication

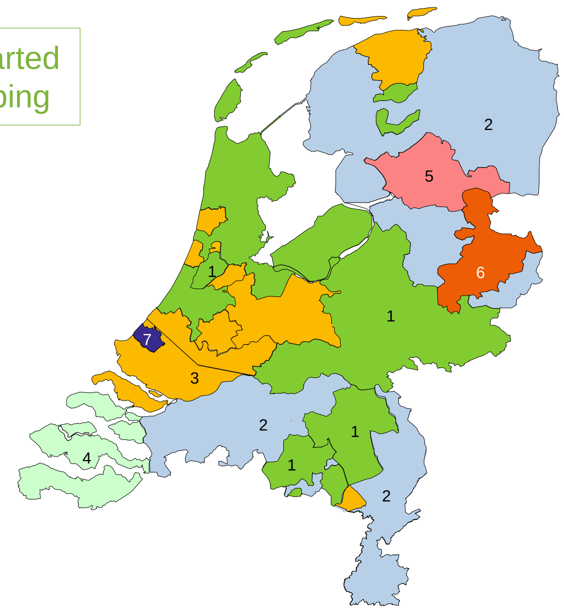
Notes: (1) Alliander includes Endinet

# Overview Dutch energy networks

## Electricity networks




## Gas networks

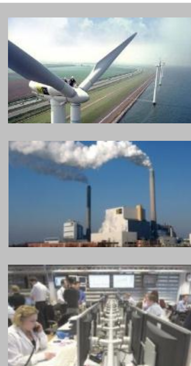



Negotiations started on asset swapping

- Liander and Endinet (1)
- ENEXIS (2)
- Stedin (3)
- Delta Netwerkbedrijf BV (4)
- RENDO Netbeheer BV (5)
- COGAS (6)
- Westland Energie Infrastructuur BV (7)

Source: ECN/EnergieNed/Netbeheer Nederland "Energy Trends 2014" publication adjusted for acquisition Endinet by Alliander

# Position in the Dutch energy value chain

| Production and trade | Transmission | Distribution | Supply |
|---|---|---|---|
|  |  |  |  |
| Liberalised | **Regulated** | **Regulated** | Liberalised |
| Vattenfall/Nuon<br>RWE/Essent<br>Eneco | Tennet<br>Gasunie | **Alliander**<br>Enexis<br>Stedin | Vattenfall/Nuon<br>RWE/Essent<br>Eneco |

The Dutch energy value chain has been partially liberalised. Regional distribution and transmission are regulated

# Alliander's businesses: stable cash flow profile

liander | endinet | liandon

- Regional Grid Manager: Management of regional electricity and gas grids
- Electricity & gas metering business
- Regulated assets
- Low risk profile due to regulatory environment
- Revenue are related to capacity (infrastructure) and not volume dependent

- Service, maintenance and automation of complex energy infrastructures, including for TenneT
- Clients are in the stable and regulated network sector
- Stable and predictable cash flow

| Primary segmentation | Network operator Liander | | Network company Endinet | | Other[1] | | Eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| *€ million* | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| **Operating income** | | | | | | | | | | |
| External income | 1.586 | 1.642 | 108 | 117 | 103 | 87 | - | - | 1.797 | 1.846 |
| Internal income | 5 | 3 | - | - | 308 | 315 | -313 | -318 | - | - |
| **Total income** | **1.591** | **1.645** | **108** | **117** | **411** | **402** | **-313** | **-318** | **1.797** | **1.846** |
| **Operating expenses** | | | | | | | | | | |
| **Total operating expenses** | 1.175 | 1.185 | 87 | 90 | 450 | 421 | -313 | -318 | 1.399 | 1.378 |
| **Operating profit** | **416** | **460** | **21** | **27** | **-39** | **-19** | **-** | **-** | **398** | **468** |
| **Total assets** | 6.415 | 6.260 | 514 | 518 | 2.619 | 2.645 | -1.876 | -1.875 | 7.672 | 7.548 |

1) Comprises other activities within the Alliander-group including the activities of Liandon, Stam, Alliander A.G., activities in emerging business areas, corporate departments and service units (both part of Alliander N.V.)

Over 90% of Alliander revenue is derived from regulated activities

# Regulation - Regulatory framework

**Basic Philosophy**

- Incentive based regulation
- Output steering

**Regulation model**

- Stimulating competition by benchmark regulation
- Creating incentives for operators to operate as efficiently as possible
- Level playing field (equal performance leads to equal allowed revenue)
- Rate of return in accordance with risk (WACC). Part of the regulated cost base
- Small regulator (at a distance from operations)

**Regulatory scope**

Transport and connection service of electricity and gas. The metering market is currently regulated on a cost-plus basis.

**Benchmark competition**

Benchmark is the average total cost of the network sector, including a normalised rate of return (WACC), as well as the extrapolation of the development of the frontier shift.

Network operators are encouraged to beat the benchmark (or efficient cost level). By beating the benchmark it is justifiable to lower the benchmark for the next regulation period. At first the profits remain at the network operators. When the new lowered benchmark becomes effective consumers will also benefit.

Tariff levels are set in advance for at least 3 years. To estimate these levels the regulator uses the recent historical performance of the benchmark. As a result the tariffs follow the realised cost with a time-lag.

In the long run the sector as a whole is able to cover its total cost including capital cost.

Constructive regulatory framework which does not allow for privatization

# Regulation – Calculation of allowed revenue

## Calculation

- Output steering implemented in the energy Acts by the formula:
  - $AR_t = (1 + (cpi \pm x + q)/100) * AR_{t-1}$ , by which:
    - $AR_t$ = allowed revenue in year t based on output volume V and an average sector cost level C
    - cpi = consumer price index
    - x = efficiency reduction (x factor)
    - q = quality performance
    - V = output in a determined historical year
    - C= average sector cost level in a determined historical year

## Notes

- Average sector cost level consists of three components
  - Average sector OPEX per year
  - Average sector Depreciation per year
  - Average sector Regulated Asset Value per year x Regulated WACC
- Sector averages are calculated by dividing total sector cost by the total number of standardized units of output in the sector
- WACC is the normalised rate of return on capital based on CAPM. Risk free rate is based on 3yr average of 10y bunds and 10y Dutch state. Risk premium based on 3y average risk premium on European utilities. A transaction fee premium is also included. Equity beta based on long run average for selected stock market listed TSOs and DSOs.
- x factors are set to adjust allowed revenues over time
- Method to determine x, q, V and C is presented in a Method Decision and is legally binding
- Duration of a Method Decision can be between 3 and 5 years though is in practice set at 3 years
- Regulator has certain degrees of freedom at developing the method Decision, however:
  - Obligation to consult network operators and representative organizations in advance
  - Method should be based on benchmark competition
  - Applying benchmark competition after reaching a level playing field (comparable tariffs except for differences due to objectifiable regional differences)

# Regulation – X factors

### Current regulatory period

- Period: 1 Jan 2014 - 31 Dec 2016
- Positive x factors have been set that require a decrease of allowed revenue
- Regulator has decided to use an x factor reduction and a one-off reduction in allowed revenue in 2014 and x factor reductions in 2015 and 2016.
- x factors are partly based on WACC of 3.6% (real, before tax)
- Decrease in WACC is due to lower equity beta, risk free rates and risk premiums (WACC is CAPM based)
- Revenue impact in 2014 is less than sum of one-off and x factor due to positive recalculations effect of previous years
- Revenue impact for regulatory period is on average €50 million per year accumulating (excluding any recalculation effects for 2015 and 2016)

### Previous regulatory period

- Period: 1 Jan 2011 - 31 Dec 2013
- Negative x factors allowed for an increase of maximum allowed revenue
- x factors were partly based on WACC of 6.2% (real, before tax)

### Next regulatory period (if and when intended legislation is effective)

- 4-year, 5-year or 6-year period starting on 1January 2017
- Other regulatory methodology remains unchanged

**Electricity**

| | x factor (%) | | | |
|---|---|---|---|---|
| | 2014–2016 | | 2011–2013 | 2008–2010 |
| | x factor (%) | one-off (in € mln) | | |
| Liander N.V. | 4.6 | 73 | (6.4) | 3.6 |
| Endinet B.V. | 5.3 | 5 | (6.2) | 4.6 |
| Delta Netwerkbedrijf | 4.7 | 6 | (5.2) | 5.8 |
| Stedin B.V. | 4.6 | 72 | (7.7) | 6.3 |
| Enexis B.V. | 4.9 | 102 | (6.1) | 5.0 |

**Gas**

| | x factor (%) | | |
|---|---|---|---|
| | 2014–2016 | 2011–2013 | 2008–2010 |
| Liander N.V. | 6.4 | (2.7) | 6.1 |
| Endinet B.V. | 7.0 | (1.6) | 7.2 |
| Delta Netwerkbedrijf B.V. | 6.9 | (0.5) | 6.6 |
| Enexis B.V. | 6.9 | (3.4) | 8.1 |
| Stedin B.V. | 6.6 | (2.8) | 4.2 |

Source: ACM, Alliander

# Regulation – Recent developments

**Method decision**

- Method decisions of new regulatory period 2014-2016 have been published indicating tariff decrease due to lower WACC from 6.2% to 3.6% and a decrease in overall sector cost and regulation of metering services
- Sector has filed an appeal at Trade and Industry Appeals Tribunal about WACC level of 3,6% (decision expected at end of February 2015)

**Unbundling**

- The Advocate General's has advised the Supreme Court that the unbundling is not in conflict with EU law, but still has to be assessed for compliance with ECHR (property right). Supreme Court expected to decide in 20 March 2015
- Resulting delay in sector consolidation process of at least 2 years is expected

**Metering Tariffs**

The setting of allowed revenue for metering service consumer market is in a transitory phase:

- Up to 2020 based on cost plus regulation
- From 2020 onward the cost will be included in the benchmark

# Regulation – Recent developments

| | |
|---|---|
| **Project STROOM** | • Preparation of new Bills based on evaluation of the existing Electricity and Gas Acts<br>– Streamlining the Electricity and Gas Acts<br>– Aimed at reducing the regulatory burden and administrative cost<br>– Based on EU regulation<br>– Based on sector input<br>– To facilitate the energy transition<br>– Clarification on the allowed activities of network operators and network companies<br>• Ministry of Economic Affairs published consultation document outlining future legislation<br>• Proposed legislation is scheduled to pass Parliament in April 2015 |
| **Sufferance tax** | • Municipalities are increasingly levying sufferance tax on Alliander activities. These costs can be recovered in the allowed revenues but with a delay. |
| **Smart Meter** | • Small-scale offering (pilot) to customers in period 2012-2014<br>• Large-scale offering to customers starting in 2015<br>• Alliander aims to have offered smart meters to all of its customers by 2020 |
| **Other** | • Decisions by Trade and Industry Appeals Tribunal in cases concerning lampposts and customer data management<br>– Binding orders by ACM overruled<br>– Seeking ACM compensation for unjustified expenses |

# Content

# Key figures

| Key figures | | | |
|---|---|---|---|
| *€ million* | **2014** | **2013** | **Movement compared to 2013** |
| **Financial key figures** | | | |
| Revenue | 1.696 | 1.744 | -3% |
| Operating profit | 510 | 457 | 12% |
| Operating profit after tax excluding incidental items and fair value movements | 398 | 468 | -15% |
| Profit after tax | 323 | 288 | 12% |
| Profit after tax excluding incidental items and fair value movements | 240 | 287 | -16% |
| Investments in property, plant and equipment | 570 | 570 | 0% |
| **Ratios** | | | |
| Net debt position[1] | 1.617 | 1.718 | |
| Solvency[2] | 53,6% | 51,1% | |
| FFO / Net Debt[2] | 34,0% | 38,7% | |
| Outage Electricity (in minutes) | 19,9 | 24,0 | |

1) Net debt is defined as interest-bearing debt less cash and cash equivalents and investments that are not restricted
2) Ratios according to the principles of Alliander's financial policy

# Incidental items and fair value movements in the financial results

| Incidental items and fair value movements | | |
|---|---|---|
| *€ million* | **2014** | **2013** |
| Other income | 40 | - |
| Total purchase costs, costs of subcontracted work and operating expenses | 72 | -11 |
| **Impact on operating profit (EBIT)** | **112** | **-11** |
| Finance income/(expense) | -19 | 13 |
| **Total impact on profit before tax** | **93** | **2** |
| Tax | -10 | -1 |
| **Total impact on profit after tax** | **83** | **1** |

# Incidental item CDS

**Notes on the CDS**

- The credit default swap derivative instrument has been part of investments related to two cross-border lease contracts since 2005 (before unbundling).

- The CDS is a product which transfers the credit exposure on an underlying portfolio made up of almost 100 credit names. The instrument has a maturity of 10 years (maturing at the end of June 2015), Alliander's maximum risk exposure is $171 million.

- An impairment loss on the CDS was recognised in 2008 and, in view of the then prospects for the product, it was decided at the time to recognise a provision in respect of the maximum risk exposure of $171 million.

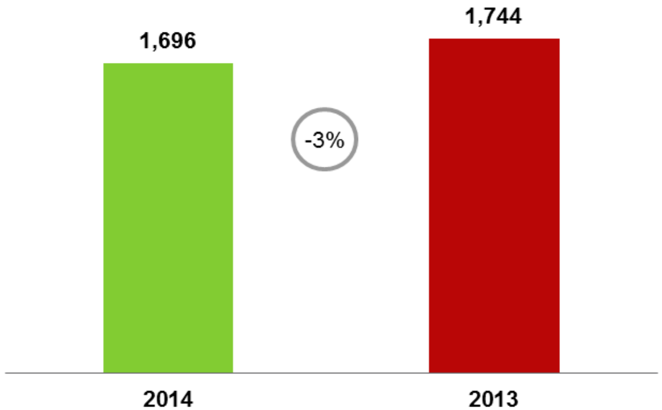
- In December 2014, the fair value of the CDS was $18 million (€15 million) and the additional provision amounted to $153 million (€127 million). As at year-end 2014, the remaining term to maturity of the CDS was only six months. The management of Alliander concluded that the default risk among the companies in the CDS portfolio (between then and the expiration date of the instrument) had diminished in the preceding 12 months. Under the criteria stipulated in IAS 37, this meant that the entire amount of the provision of $153 million (€127 million) should be released to income and set against operating expenses.

- However, Alliander's management took the view that this fair value did not sufficiently reflect the remaining risks attendant upon the product. Based on an internal risk analysis, a valuation of $75 million (€62 million) as at year-end 2014 was arrived at. The difference, of $57 million (€47 million), has been recognised in operating expenses, The fair value of the CDS based on a external party valuation in December 2014 was $18 million (€15 million).

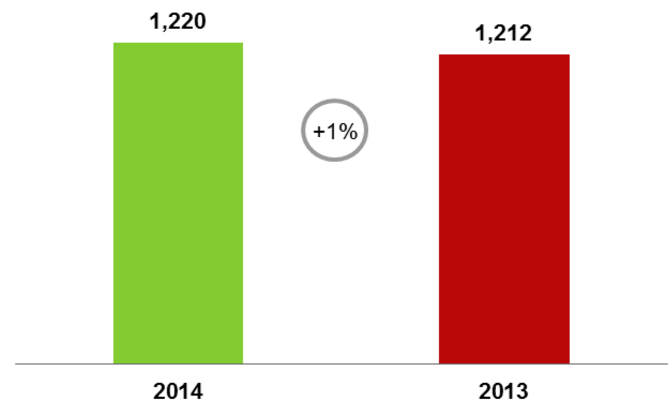
- The net effect is that the dollar amount released from provisions with respect to the CDS in 2014 and set against operating expenses was the equivalent of €80 million. After tax this release amounts to €60 million.

# Financial highlights [1]

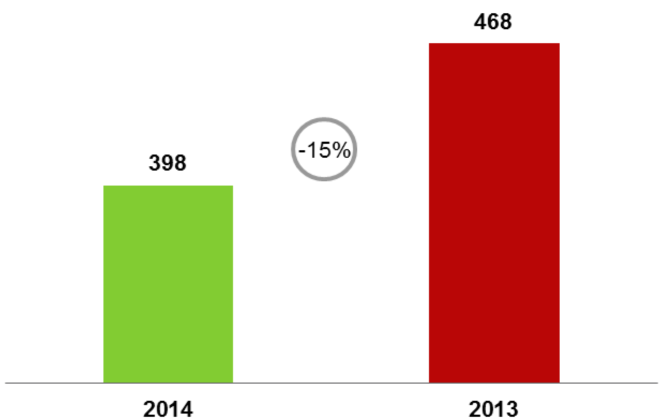
**Revenue**
*€ million*



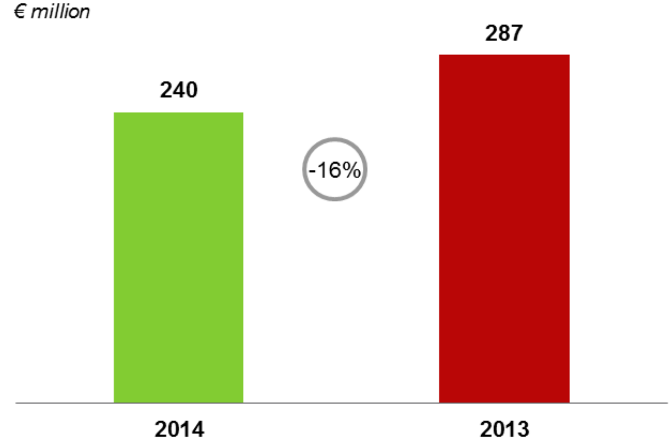

**Purchasing costs, sub-contracted work and operating expenses**
*€ million*




**Operating profit**
*€ million*

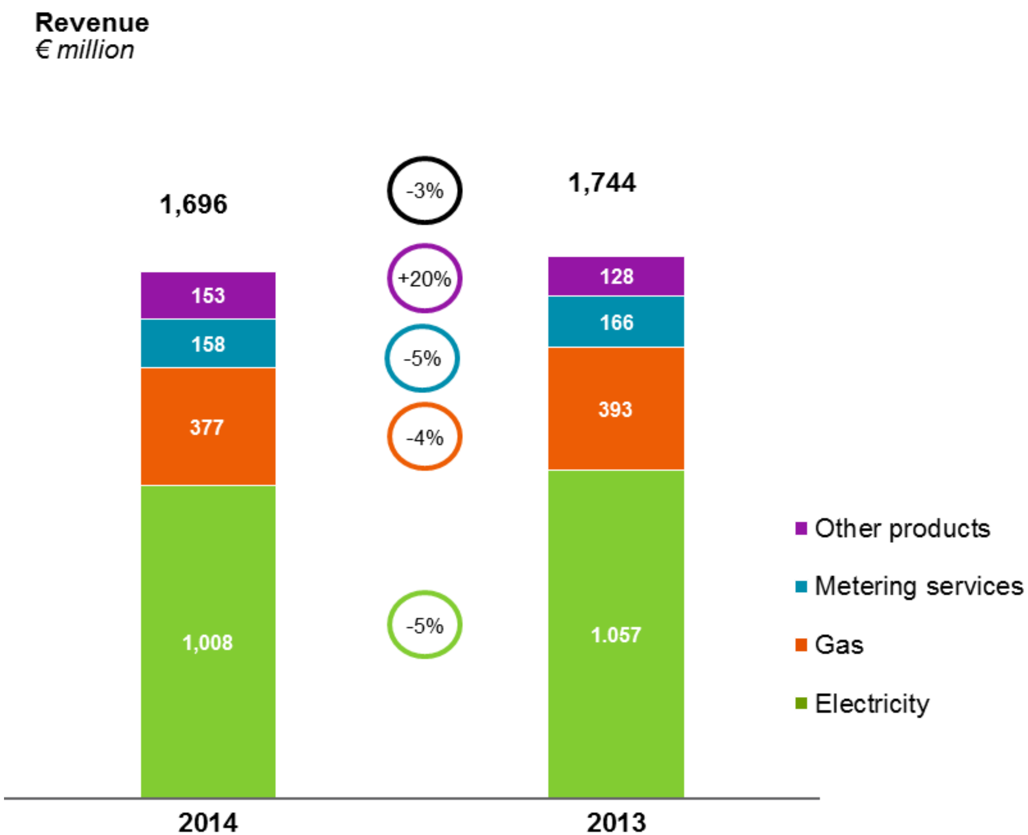



**Profit after tax**
*€ million*



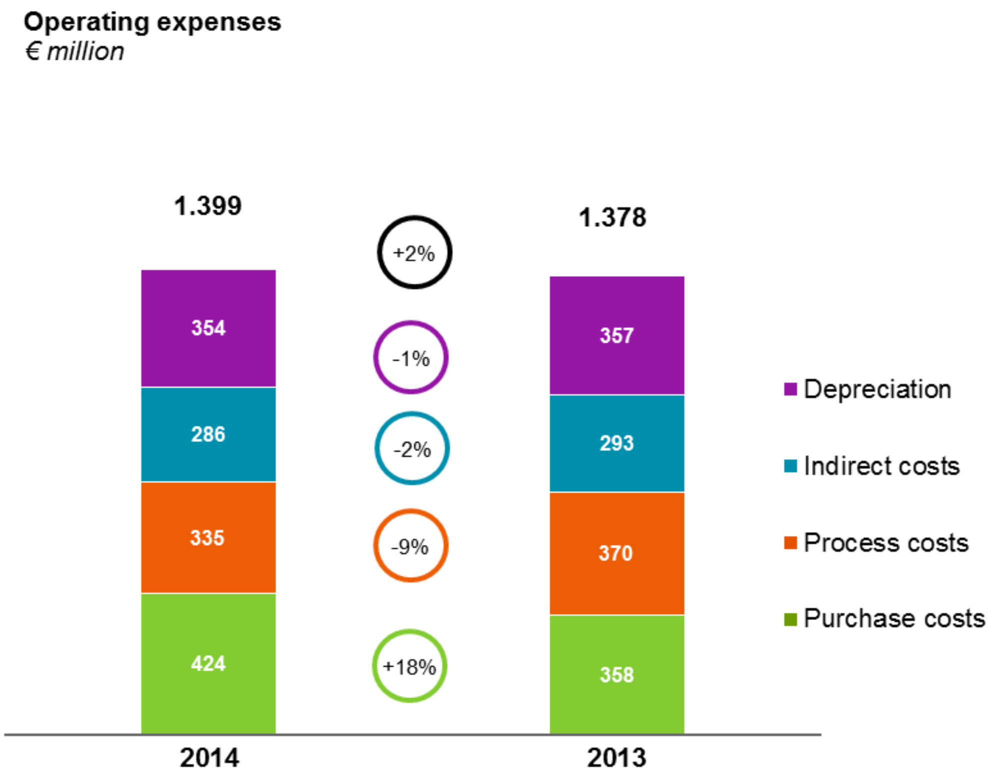

1) Excluding incidental items and fair value movements

# Revenue [1]




1) Excluding incidental items and fair value movements

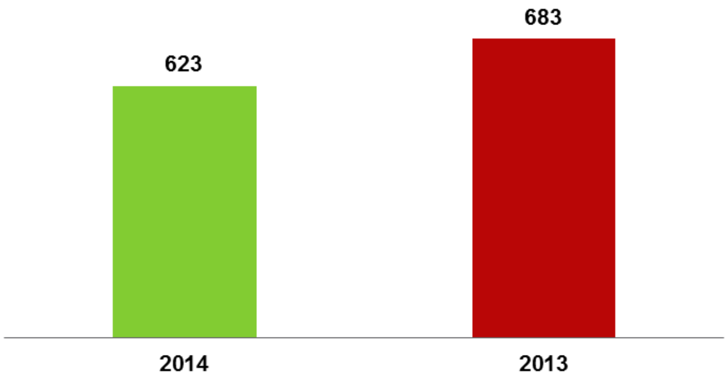
# Operating expenses [1]



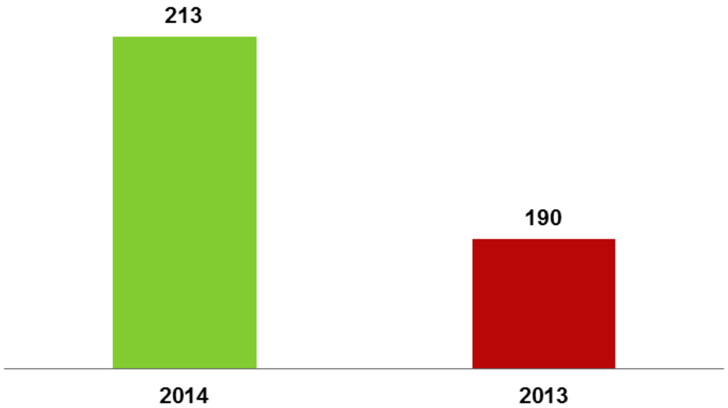

1) Excluding incidental items and fair value movements

# Cash flows and Capex

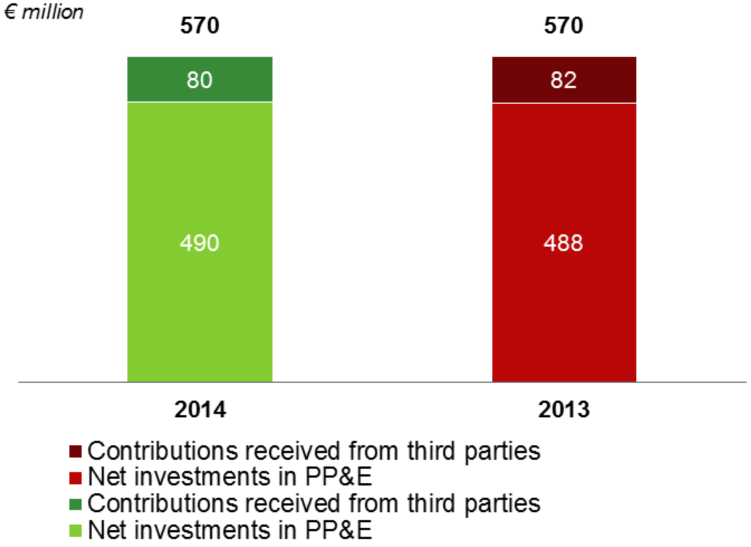
Cash flow from operations
*€ million*




Free cash flow[1]
*€ million*

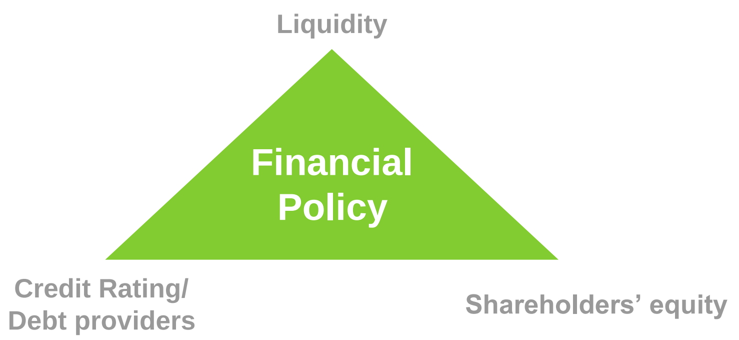



Investments in PP&E
*€ million*




1) Free cash flow = Cash flow from operating activities – Cash flow from investing activities

# 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 [1]

**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

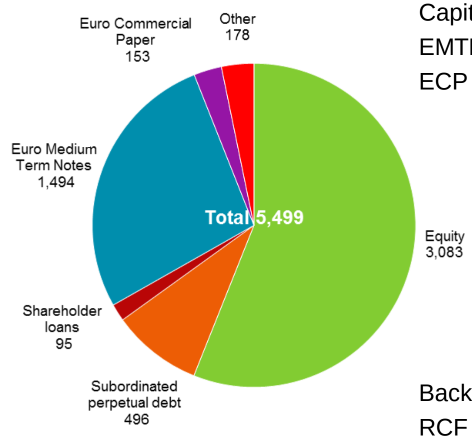
Strong financial profile with clear and well defined financial policy, supported by regulated financial ratios and proven commitment to stay within financial policy framework

1) See page 46

# Financial position

## As of 31 Dec 2014

### Capitalisation (€ million)




Capital Market Programs

EMTN 3,000 million

ECP 1,500 million

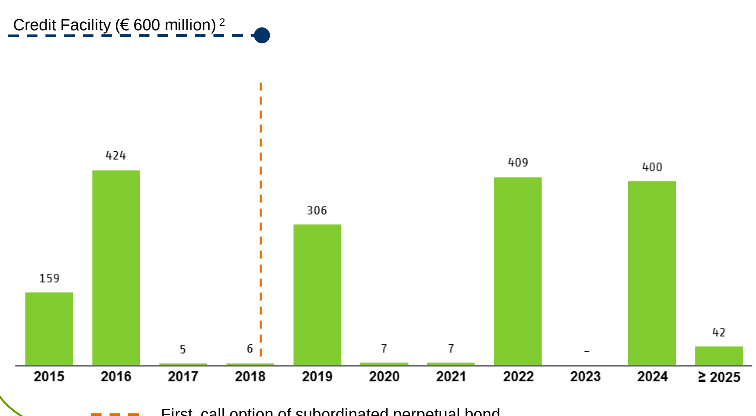
Backup credit facility

RCF 600 million

### Gross and net debt (€ million)

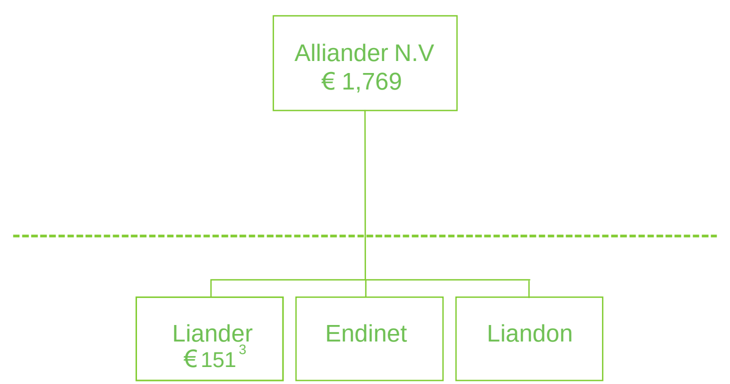
| | | |
|---|---|---|
| Gross Debt (including CBL related financial lease obligations) | | 1,920 |
| Cash | 167 | |
| Other Investments | 184 | |
| CBL Investment | 200 | |
| Total Cash and Cash Equivalents | | 551 |
| Net debt according to IFRS | | 1,369 |
| 50% of subordinated perpetual bond | | 248 |
| Net debt according to financial policy | | 1,617 |

### Maturity profile (€ million)[1]



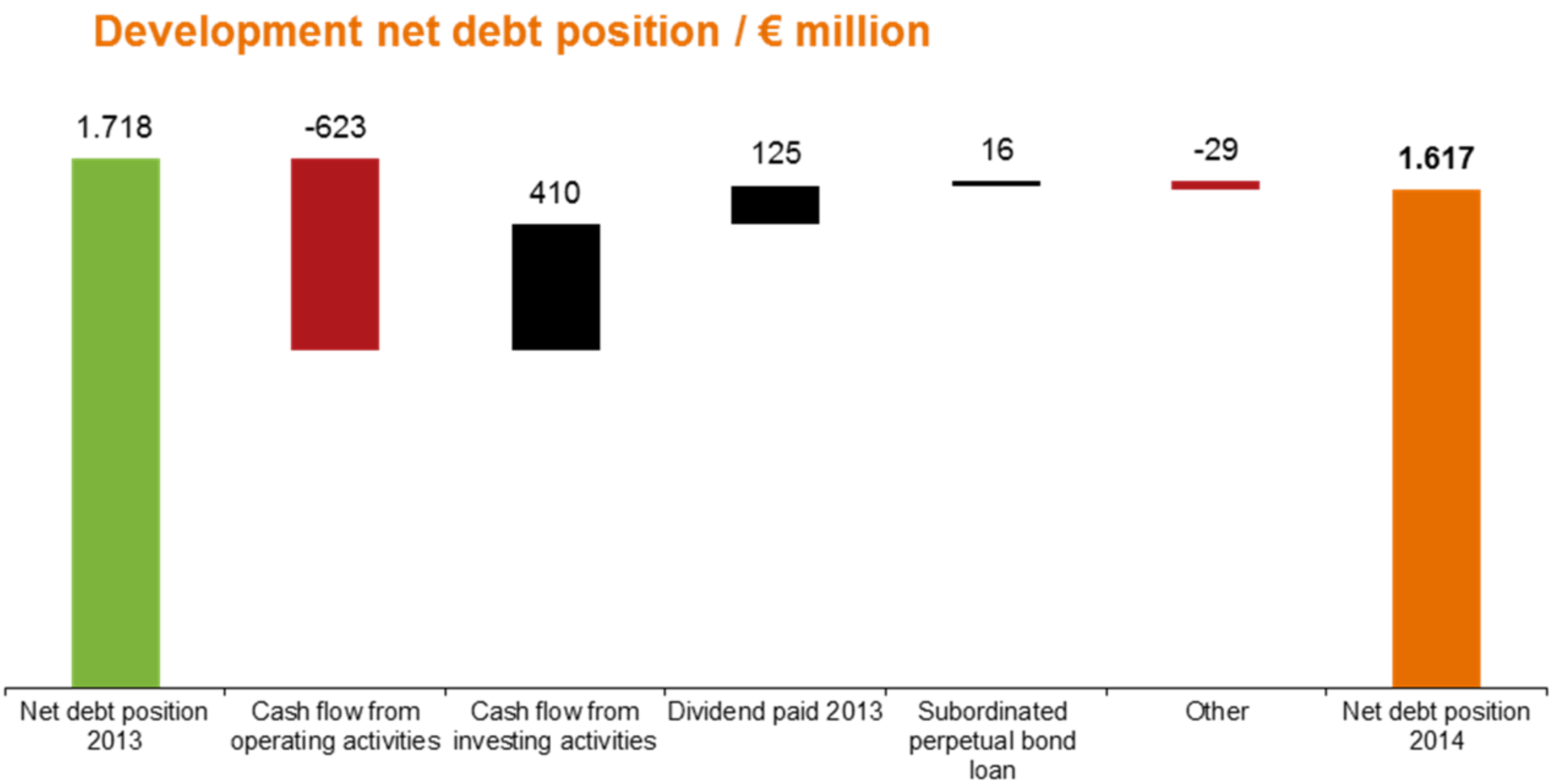

1) excluding € 144 million finance lease obligations Liander
2) including € 200 million L/C back-up facility

### Location of debt (€ million)



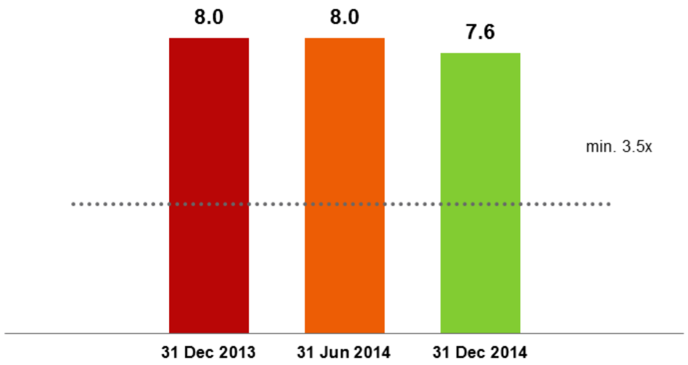

3) including € 144 million finance lease obligations Liander

# Net debt

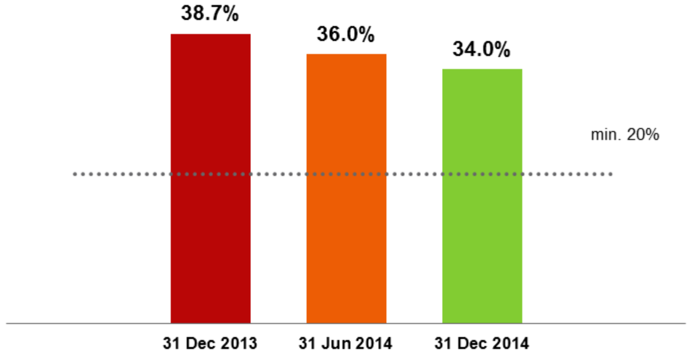

Development net debt position / € million
1.718
-623
410
125
16
-29
1.617
Net debt position 2013
Cash flow from operating activities
Cash flow from investing activities
Dividend paid 2013
Subordinated perpetual bond loan
Other
Net debt position 2014

# Ratios financial policy [1]

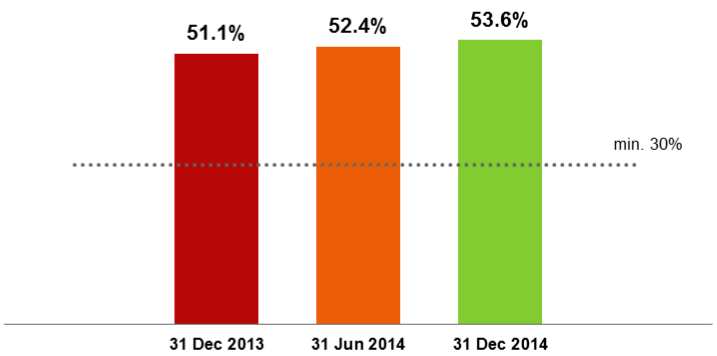
Interest cover [2]



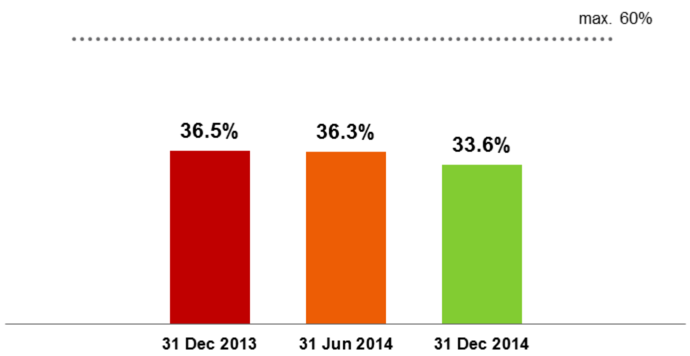

FFO / Net Debt [3]




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/capitalisation: net debt divided by the sum of net debt and equity

# Strong credit ratings

Moody's Investors Service

Aa3/Stable

P-1

**Rationale**

- Counts as a Government Related Issuers (GRI) under Moody's methodology
- Fully owned by Dutch provinces and municipalities – two notches of uplift reflecting potential support from government shareholders
- Low business risk profile supported by predictable cash flows due to predominantly regulated activities
- Stable and transparent regulatory regime, though allowed returns are decreasing
- Moderate investment requirements and conservative distribution policy underpin strong financial profile going forward
- The stable outlook reflects Moody's expectation that Alliander will maintain focus on its regulated business and continue to follow its conservative financial policy
- Moody's has assigned a A3 issue rating to Alliander's subordinated perpetual bond and 50% equity weight (20-Nov-2013)

STANDARD & POOR'S

AA-/Stable

A-1+

**Rationale**

- Moderate likelihood that owners would provide timely and sufficient extraordinary support in the event of financial distress (in accordance with criteria for government-related entities).
- Excellent business risk profile based on more than 95% of operating profit derived from stable regulated revenues, natural monopoly position in service areas, strong operational performance of networks and regulatory reset risk every three years
- Modest financial risk profile based on stable and predictable operating cash flows within regulatory periods, conservative financial policy, strong debt coverage ratios and strong liquidity
- Stable outlook reflects the view that Alliander will be able to sustain adjusted FFO to debt of about 25% over the medium term. Underpinning S&P's opinion is their assumption that Alliander will partially offset the impact of lower tariffs in the current regulatory period by reducing its operating costs and dividend distributions
- S&P's has assigned an A issue rating to Alliander's subordinated perpetual bond and 50% equity weight (19-Nov-13)

Source: Moody's Investors Service as of November 20th, 2013 and December 22nd 2014. Standard and Poor's as of August 15th, November 19th and 20th, 2013 and December 10th, 2014.

# Sustainability rating and transparency

## Socially responsible investment

- Alliander's prime rating by **Oekom Research** was upgraded to B+ from B in July 2014 and belongs to the highest ratings in the sector
  - Rating since 2011
  - Target level is a Prime rating
- Alliander has been rated by **Vigeo** (since 2011) and **EIRIS** (2012). These ratings are not publicly available
- Alliander has been selected for the investment universe of **Triodos Bank**
- Alliander N.V. has been reconfirmed for inclusion in the **Ethibel** EXCELLENCE Investment Register since 29/01/2015. .

## Transparency

- Alliander has based its Corporate Social Responsibility report on the **Global Reporting Initiative** (GRI) guidelines
  - Reports since 2008
  - Reporting over 2014 at comprehensive / GRI G4 wit external assurance
- **ISO 26000** Alliander adopts this global guideline for its corporate social responsibility policy
  - Since 2010
- Alliander participates in the **Transparency Benchmark** for large Dutch corporates performed by KPMG under aegis of the Dutch Ministry of Economic Affairs, Agriculture and Innovation
  - Ranked 15$^{th}$ in 2014 (out of 409 companies), 24$^{th}$ (2013),14$^{th}$ (2012),12$^{th}$ (2011)
  - Participates since 2008
  - Target level is at the forefront position

# Content

1. Highlights
2. Sector developments
3. Alliander at a glance
4. Results 2014
5. Appendices
   - **Detailed results 2014**
   - Other

# Results

| Consolidated income statement | | | | |
|---|---|---|---|---|
| *€ million* | 2014 | | 2013 | |
| **Revenue** | **1,696** | | **1,744** | |
| Other Income | 141 | | 102 | |
| **Total income** | | **1,837** | | **1,846** |
| | | | | |
| **Operating expenses** | | | | |
| Purchase costs and costs of subcontracted work | -406 | | -416 | |
| Employee benefit expenses | -465 | | -453 | |
| External personnel expenses | -118 | | -107 | |
| Other operating expenses | -159 | | -247 | |
| **Total purchase costs, costs of subcontracted work and operating expenses** | **-1,148** | | **-1,223** | |
| Depreciation and impairment of property, plant and equipment | -354 | | -357 | |
| Less: Own work capitalised | 175 | | 191 | |
| **Total operating expenses** | | **-1,327** | | **-1,389** |
| **Operating profit** | | **510** | | **457** |
| | | | | |
| Finance income | | 50 | | 43 |
| Finance expense | | -143 | | -112 |
| Result from associates and joint ventures after tax | | - | | 2 |
| **Profit before tax** | | **417** | | **390** |
| Tax | | -94 | | -102 |
| **Profit after tax** | | **323** | | **288** |

# Consolidated balance sheet

| Consolidated balance sheet | | | | |
|---|---|---|---|---|
| *€ million* | 2014 | | 2013 | |
| Assets | | | | |
| Property, plant and equipment | 6,218 | | 6,012 | |
| Intangible assets | 322 | | 323 | |
| Investments in associates and joint ventures | 11 | | 32 | |
| Available-for-sale financial assets | 200 | | 297 | |
| Other financial assets | 43 | | 25 | |
| Deferred tax assets | 218 | | 244 | |
| **Non-current assets** | | **7,012** | | **6,933** |
| Inventories | 40 | | 37 | |
| Trade and other receivables | 258 | | 282 | |
| Derivatives | 2 | | 19 | |
| Other financial assets | 184 | | 100 | |
| Cash and cash equivalents | 167 | | 155 | |
| **Current assets** | | **651** | | **593** |
| Assets held for sale | | 9 | | - |
| **Total assets** | | **7,672** | | **7,548** |
| Equity & liabilities | | | | |
| **Equity** | | | | |
| Share capital | 684 | | 684 | |
| Share premium | 671 | | 671 | |
| Subordinated perpetual bond | 496 | | 496 | |
| Hedge reserve | - | | - | |
| Revaluation reserve | 42 | | 24 | |
| Other reserves | 1,363 | | 1,212 | |
| Profit after tax | 323 | | 288 | |
| **Total equity** | | **3,579** | | **3,375** |
| **Liabilities** | | | | |
| Interest-bearing debt | 1,616 | | 1,611 | |
| Derivatives | - | | 6 | |
| Finance lease liabilities | 145 | | 127 | |
| Deferred income | 1,573 | | 1,555 | |
| Provisions for employee benefits | 49 | | 53 | |
| Other provisions | 1 | | 124 | |
| **Non-current liabilities** | | **3,384** | | **3,476** |
| Trade and other payables | 103 | | 76 | |
| Tax liabilities | 106 | | 85 | |
| Interest-bearing debt | 159 | | 284 | |
| Derivatives | 80 | | - | |
| Provisions for employee benefits | 67 | | 65 | |
| Accruals | 194 | | 187 | |
| **Current liabilities** | | **709** | | **697** |
| **Total liabilities** | | **4,093** | | **4,173** |
| **Total equity and liabilities** | | **7,672** | | **7,548** |

# Cash flow statement

| Consolidated cash flow statement | | | | |
|---|---|---|---|---|
| *€ million* | 2014 | | 2013 | |
| **Cash flow from operations** | | | | |
| **Profit after tax** | | **323** | | **288** |
| Adjustments for: | | | | |
| - Finance income and expense | | 93 | | 69 |
| - Tax | | 94 | | 102 |
| - Profit after tax from associates and joint ventures | | - | | -2 |
| - Depreciation and impairment less amortisation | | 291 | | 296 |
| - Release provision CDS after tax | | -60 | | - |
| - Result divestiture shares KEMA after tax[1] | | -45 | | - |
| Changes in working capital: | | | | |
| - Inventories | -3 | | -1 | |
| - Trade and other receivables | 24 | | 40 | |
| - Trade and other payables and accruals | 57 | | -35 | |
| **Total changes in working capital** | | **78** | | **4** |
| Changes in deferred tax, provisions, derivatives and other | | -38 | | -10 |
| **Cash flow from operations** | | **736** | | **747** |
| Net interest paid | -77 | | -77 | |
| Net interest received | 2 | | 5 | |
| Corporate income tax paid (received) | -38 | | 8 | |
| **Total** | | **-113** | | **-64** |
| **Cash flow from operations** | | **623** | | **683** |
| **Cash flow from investing activities** | | | | |
| Investments in intangible assets | -2 | | -5 | |
| Investments in property, plant and equipment | -570 | | -570 | |
| Construction contributions received | 80 | | 82 | |
| Investments and divestments in financial assets (associates and joint ventures) | 82 | | - | |
| **Cash flow from investing activities** | | **-410** | | **-493** |
| **Cash flow from financing activities** | | | | |
| Redemption EMTN | -276 | | - | |
| ECP financing issued | 153 | | - | |
| Long-term debt issued (redemption) | -5 | | -6 | |
| (Redemption) loans granted | -7 | | 21 | |
| Received (granted) current deposits | 75 | | -25 | |
| Redemption subordinated perpetual bond | - | | -494 | |
| Subordinated perpetual bond issued | - | | 496 | |
| Reimbursement subordinated perpetual bond | -16 | | -53 | |
| Dividend paid | -125 | | -74 | |
| **Cash flow from financing activities** | | **-201** | | **-135** |
| **Net cash flow** | | **12** | | **55** |
| Cash and cash equivalents as at 1 January | | 155 | | 100 |
| Net cash flow | | 12 | | 55 |
| **Cash and cash equivalents as at 31 December** | | **167** | | **155** |

[1] The cash flow regarding the disposal of the shares KEMA (€ 80 million) is presented as divestment in the cash flow from investing activities.

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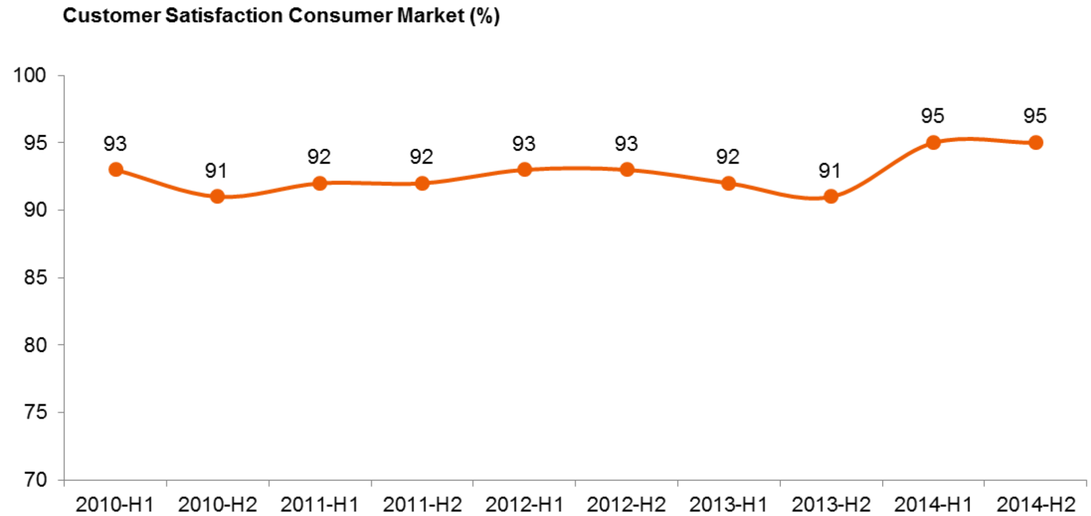
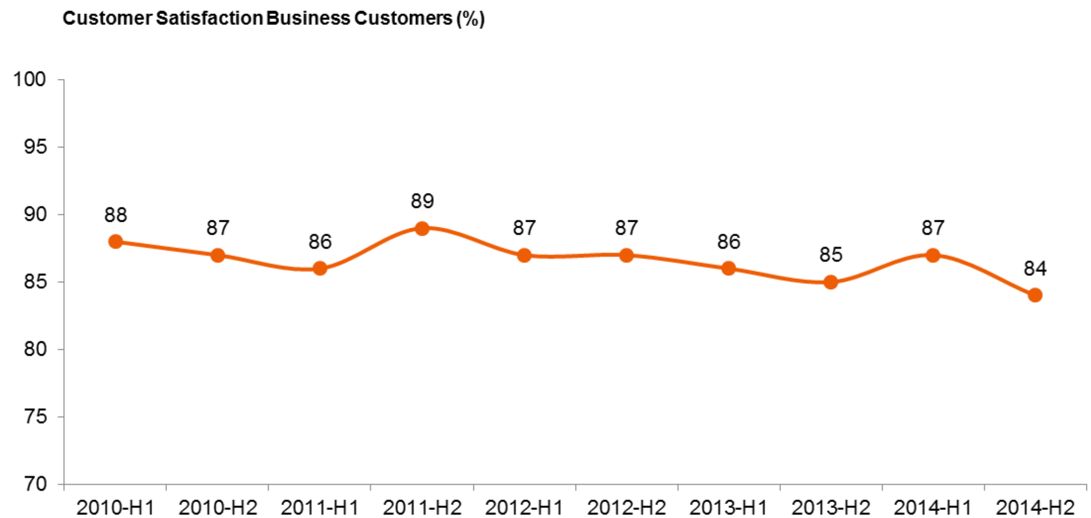
5. Appendices
   - Detailed results 2014
   - **Other**

# Customer satisfaction

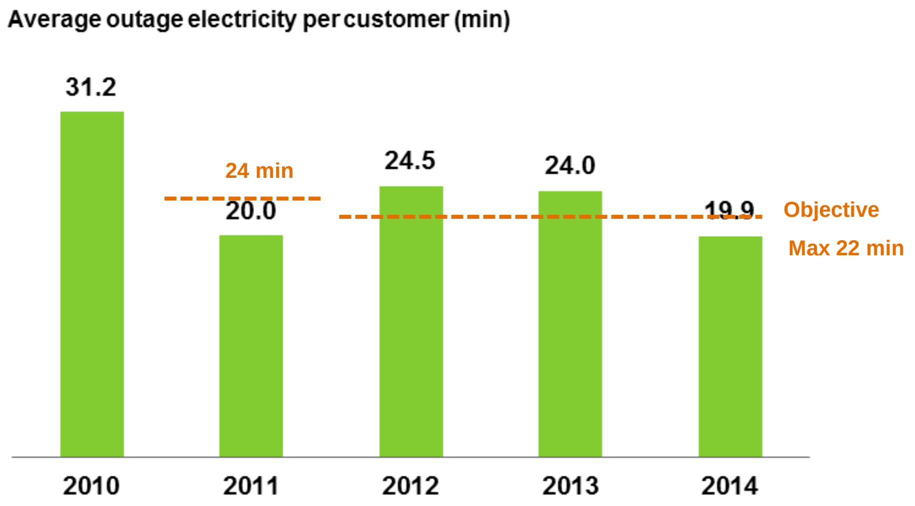



- Increase in customer satisfaction in consumer market

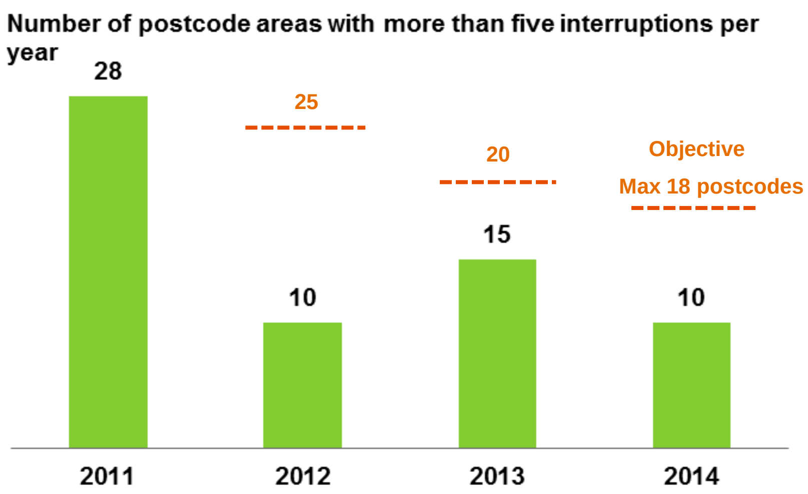



- Virtually stable customer satisfaction in business market

# Grid reliability




- 12-month average outage duration decreased by 4 minutes to 19,9 minutes
- Outage duration more than 2 minutes within objective of max 22 minutes
- Maximum outage duration for next years is 22 minutes




- Number of postcode areas with more than five interruptions annually has decreased from 15 to 10 during last 12 months
- This is below the 2014 objective of max 18 postcode areas
- Objective is set to decrease to a maximum of 15 number of postcodes in 2017

# Cross border leases – Basic structure

### Basic structure in steps

<u>At transaction closing</u>:

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

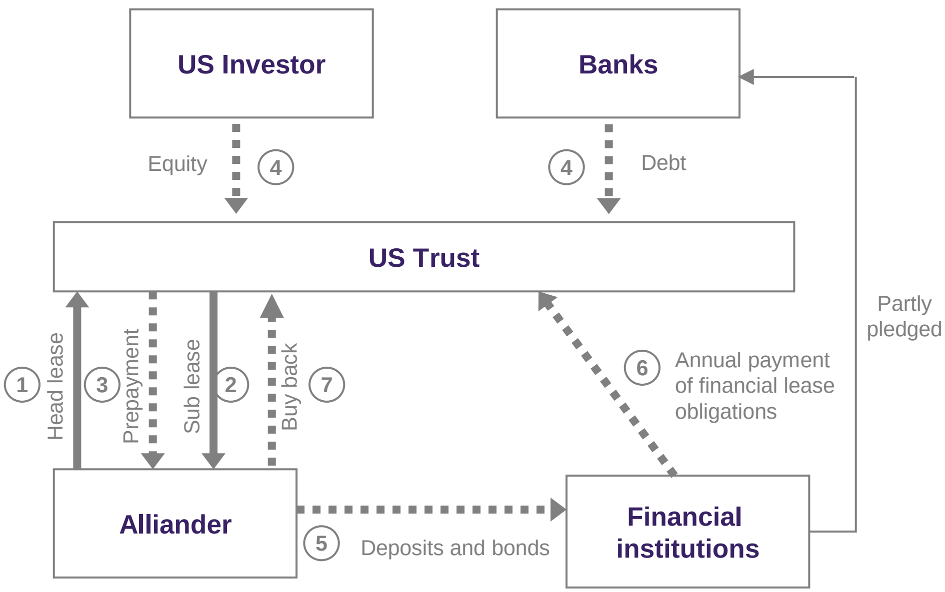
<u>During transaction</u>:

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

<u>At end of sublease:</u>

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

### Basic structure scheme




### 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 (USD mln) | 4 leases[1] 31 dec 2014 | 4 leases 31 dec 2013 |
|---|---|---|
| Equity strip risk | 194 | 278 |
| MtM risk | - | - |
| | 194 | 278 |

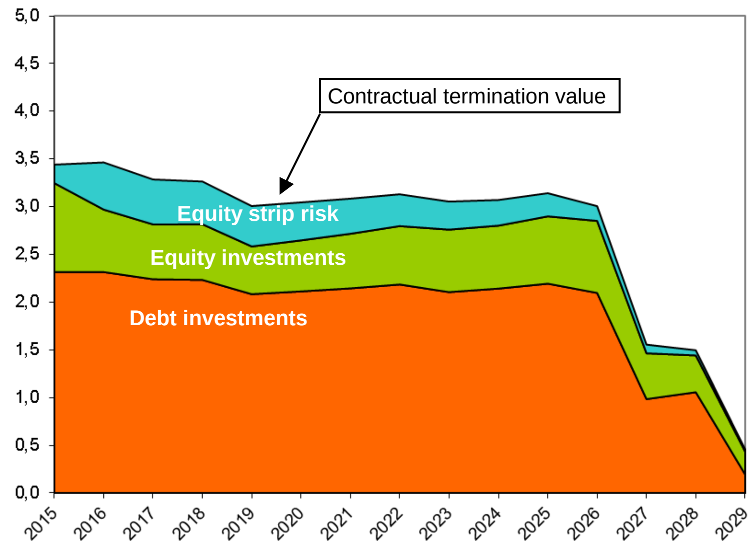
| Overview Letters of Credit (USD million) | 31 dec 2014 | 31 dec 2013 |
|---|---|---|
| Issued | 5 | 6 |
| Additional L/C's at A3/A- | 138 | 203 |
| Additional L/C's at Baa1/BBB+ | 23 | 23 |

| Back-up faciliteit (EUR million) | 31 dec 2014 | 31 dec 2013 |
|---|---|---|
| Back-up L/C facility | 200 | 200 |

1) Alliander has announced to execute the purchase option for one of the four existing leases. As a result, the first out of in total 4 trusts was terminated on 1 Feb 2015.

### Contractual termination values CBL's Alliander

(USD billion)




### CBL related risks

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

### 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.

# Alliander activities in Germany

**Strategy**

- Alliander as service provider to cities, municipalities and network operators for network based services and techniques for network operation, public lighting and traffic lights
- Apply Alliander technology in Germany
- Closely monitor and analyse newly tendered small concessions that Alliander has won before

**Existing activities (2014)**

- Revenue of € 33 million and total assets of € 52 million
- Activities:
  - Public Lighting activities in various cities (60% of revenue)
  - Network operations in various cities (40% of revenue)
- 159 employees (151 FTE)
- Number of electricity connections: 15,600 (Heinsberg)
- Number of light points: 76,400 (all locations)

**Regulatory regime E and G**

- Revenue cap regulation
- Regulatory period: 5 years (gas until 2017, electricity until 2018)

**Active tenders/ acquisitions E and G**

- Negotiations with former concession holder on purchase price of network assets for newly granted operating concessions:
  - Eberswalde (g; concession:1)
- New tender s for concessions (10.600 gas connections and 34.600 electricity connections)
  - Heinsberg (e; concession: 1; our main concession, 20 years)
  - Hennigsdorf (e+g; concessions: 2; 20 years)
  - Osthavelland (e+g; concessions: 3x2=6; 20 years)
  - Mühlenbecker Land (e+g; concessions: 3; 20 years)

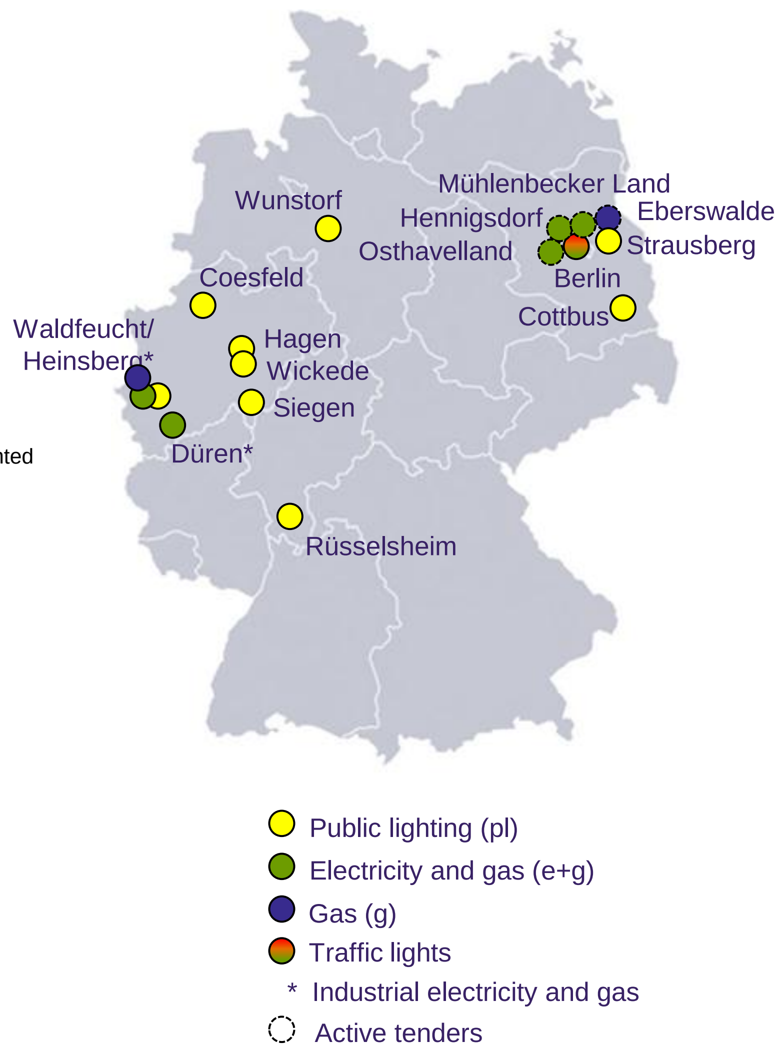
**Completed acquisitions public lighting in 2014**

- Coesfeld (pl; 5.000 lp; 8 years; Start 01.01.2014)
- Strausberg (pl; 3.000 lp; 20 years; Start 01.03.2014)
- Wunstorf (pl; 6.000 lp; 4 years; Start 01.01.2014)

**Investment**

- In 2015 and 2016 about € 26 million (of which € 15 mln. acquisition gasnetwork Eberswalde)

**Alliander activities in Germany**



# Financial definitions

**Alliander financial policy**

- **Net debt:** interest-bearing debt less cash and cash equivalents and investments that are not restricted
- **FFO:** 12-months profit after taxation adjusted for deferred tax movements and incidental items and fair-value movements plus depreciation of PP&E and amortisation of intangible assets and accrued income
- **Interest cover:** FFO and net financial income and expenses, divided by net financial income and expenses adjusted for incidental items and fair value movements
- **Net debt/capitalisation:** net debt divided by the sum of net debt and equity

**Other**

- **Solvency:** Equity including result period less the expected dividend distribution to be made in the current year divided by total assets less the expected dividend distribution to be made in the current year and less deferred income
- **Deferred income (Equalisation accounts):** These are the contributions and payments received from customers, property developers and local and regional governmental bodies for the costs incurred for electricity or gas infrastructure of new housing projects and industrial estates. The contributions and payments are recognised as deferred income on the balance sheet. Deferred income is amortised over the expected useful lives of the assets involved. There is no legal obligation to refund any amount after initial connection of the customer. The amounts of deferred income to be charged are laid down in the regulatory legislation.
- **Financial requirements for regional network managers** (by Decree of Ministry of Economic Affairs)
    - investment grade rating (Min. BBB/Baa2)

  or
    - EBIT interest cover ≥ 1.7x
    - FFO interest cover ≥ 2.5x
    - FFO to total debt ≥ 11%
    - Debt to total Cap ≤ 60%