

# Presentation Results 2016

9 March 2017

# Disclaimer



This presentation is a translation of the Dutch presentation on the consolidated annual results 2016 of Alliander N.V. Although this translation has been prepared with the utmost care, deviations from 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. 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., Liandon B.V. and Alliander AG.

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# Highlights 2016

## Financial results and position

- Reported results 2016 after tax: €282m (2015: €235m). Comparable results 2016: €132m (2015: €211m)
- Results have been impacted to an important extent by the net book profit on the sale of network company Endinet (€176m after tax)
- Revenue increased to €1,584m (2015: €1,540m) mainly due to inclusion of newly acquired service areas in Friesland and Noordoostpolder and growth in number of connections. Tariff decreases has negative impact on revenue
- Total reported operating expenses increased to €1,516m (2015: €1,341m). Excluding incidental gains 2015 operating expenses increase in 2016 by €104m mainly due to higher sufferance taxes, higher transport costs and higher depreciation
- Capex increased to €680m (2015: €575m)
- Issuance of €300m 10-year green bond loan
- Credit ratings:
  - Moody's rating unchanged at Aa2/P-1 with stable outlook
  - S&P rating unchanged at AA-/A-1+ with stable outlook

## Strategic developments

- Asset swap with Enexis on 1 January 2016. Integration of newly acquired Friesland and Noordoostpolder service areas within existing service areas
- Acquisition of CDMA 450Mhz frequency in Germany (31 May 2016)

# Highlights 2016

## Operational developments

- Electricity outage duration rose to 23.3 minutes (2015: 21.9 min) due to a large low voltage disruption in Amsterdam in January 2016 and two high voltage disruptions
- Number of postcode areas with more than five interruptions increases to 17 (2015:10)
- Customer satisfaction for consumers decreases to 3% under benchmark (2015: 3% over benchmark) and declined to 11% below benchmark level for businesses (2015: 5% under benchmark)
- The smart meter was offered to 428,000 customers in 2016
- CO<sub>2</sub> emissions in 2016 decreased by 110 kton to 797 kton, mainly due to greening of grid losses

## Regulatory developments

- The Energy Transition Bill (Voortgang Energietransitie / VEt) has been presented to Parliament in December 2016. No date set for Parliamentary approval
- The method decisions for the next regulatory period (which started on 1 January 2017) were published in September 2016. These decisions include determined model parameters like regulatory period length, WACC and x factors for the new regulatory period
- In February 2017 parliament voted in favour of the phase out of sufferance tax. A five year transitional period will be observed, allowing municipalities to levy sufferance tax up to 1 January 2022.

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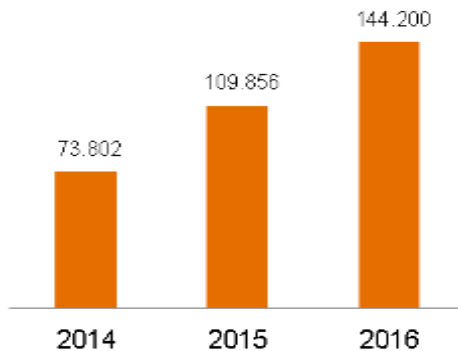
# Three major trends driving energy transition

1 Electrification of our society

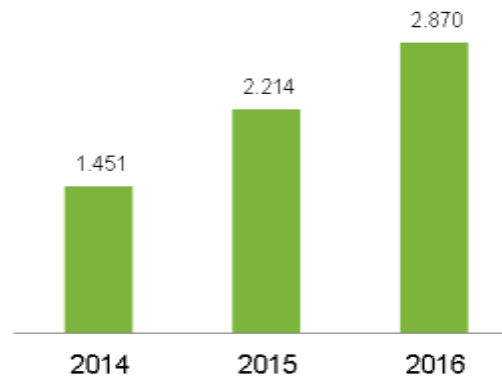
2 The energy supply is becoming more sustainable (“bottom up”)

3 Increasing role of Information and Communication Technology (“ICT”)

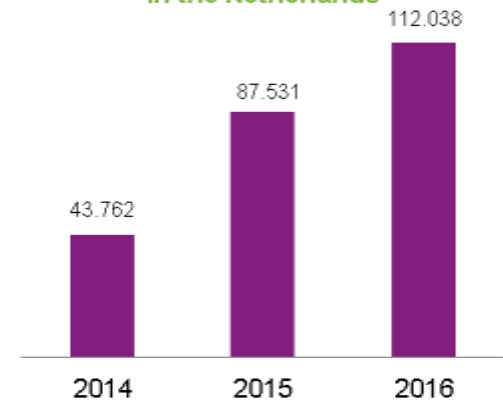
Number of customers with decentralised energy production in our region



Number of charging poles in our region



(Semi)-electric passenger cars in the Netherlands



Source: Rijksdienst voor Ondernemend Nederland

Local energy production and electric transport show high growth

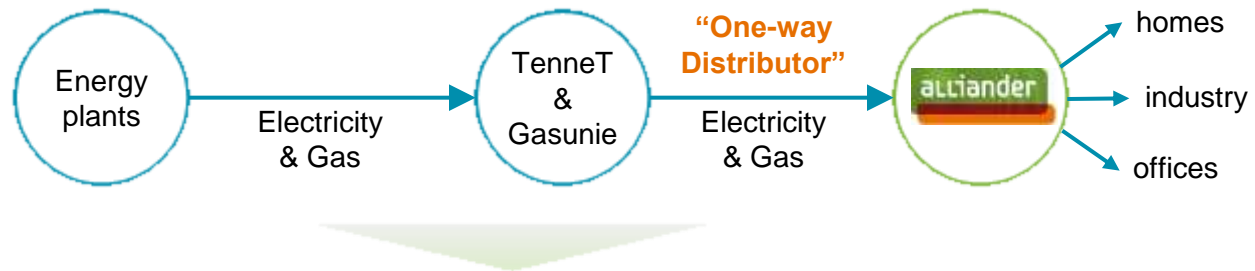
# Energy transition requires a different kind of network operator



## Traditional Network Operator

### Key Features:

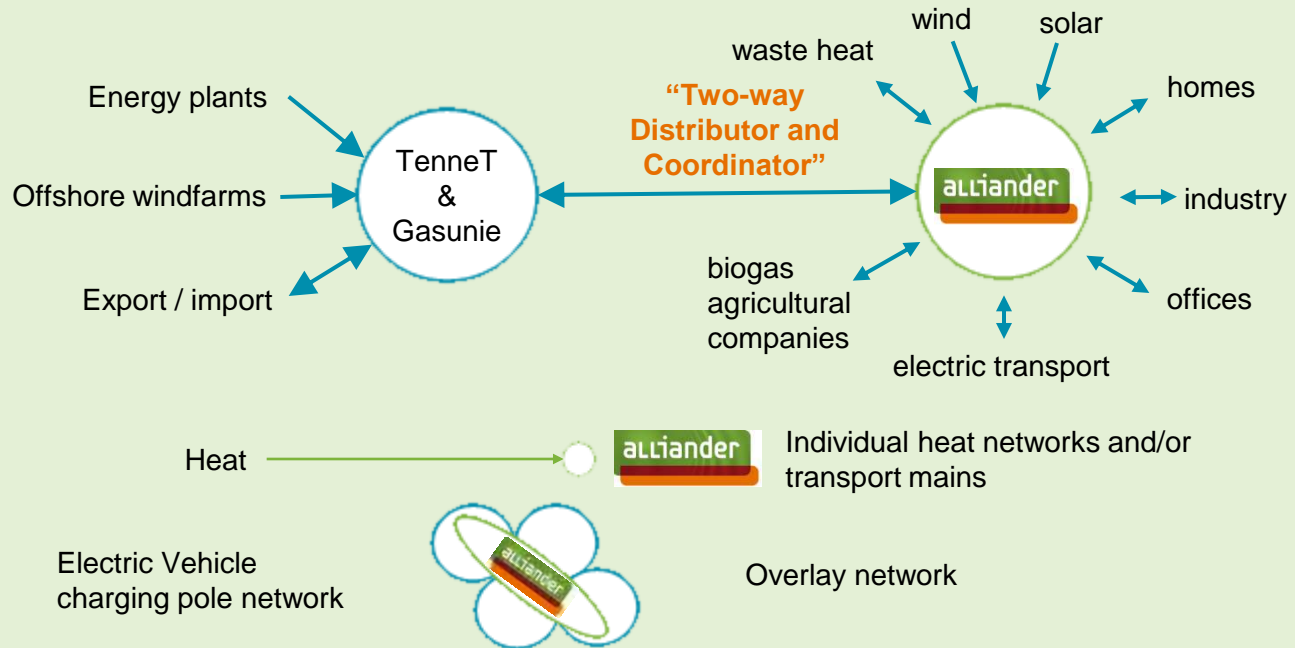
- Central steering
- 2 networks
- Central generation
- Fossil fuels



## Future (15 – 20 Years Time)

### Key Features:

- Individual choices
- Many networks
- Decentral generation
- Renewables





# Alliander mission and strategy

Alliander empowers customers to make the best energy choices. For themselves and for the local energy system. In order to ensure that everyone has equal access to reliable, affordable and sustainable energy



Support customers in making choices



Invest in new open networks



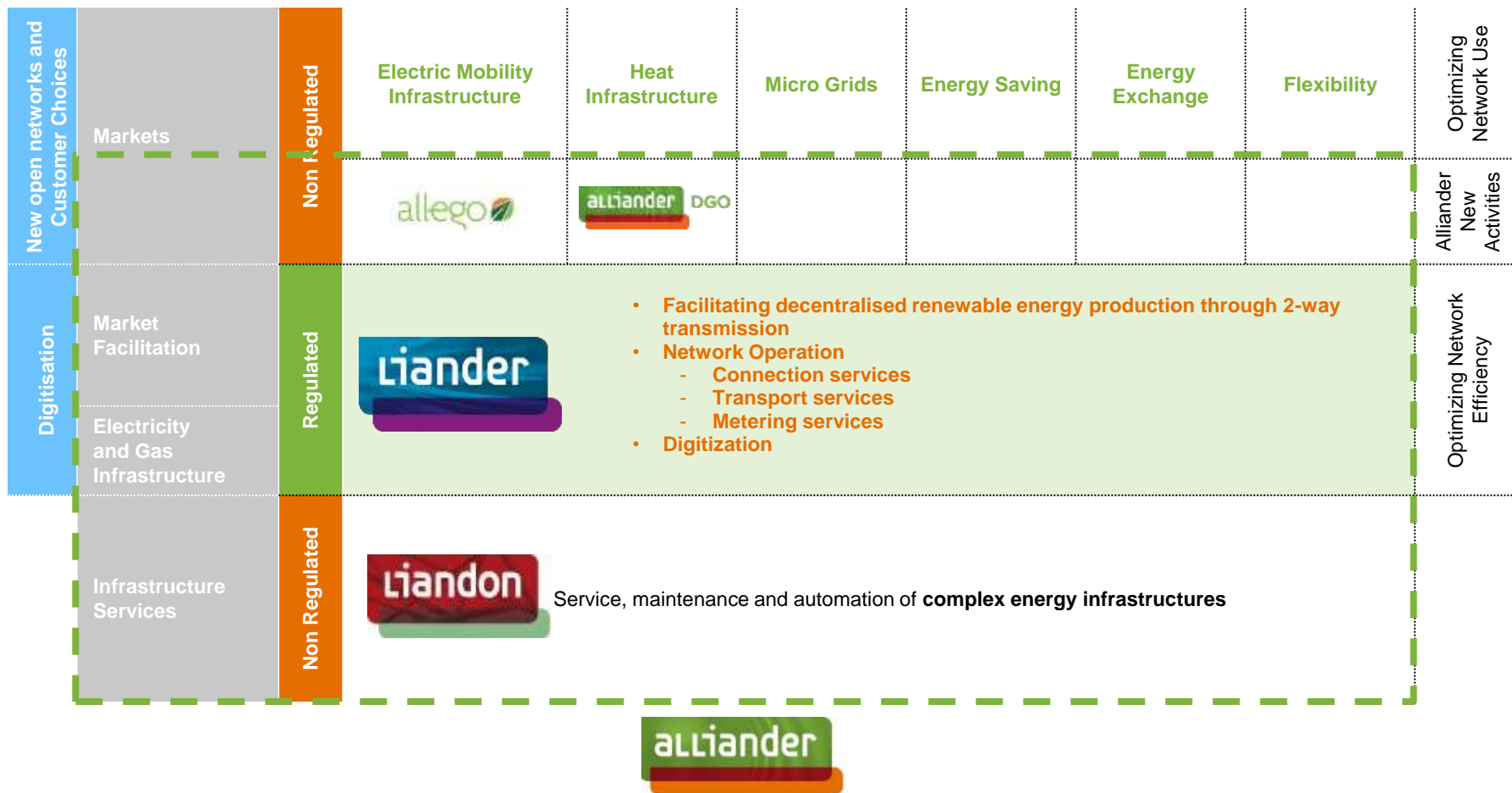
Digitisation of networks



Excellent network operations



# DSO Liander has an important role in this strategy by digitising networks and facilitating the energy transition



Alliander fully embraces energy transition activities

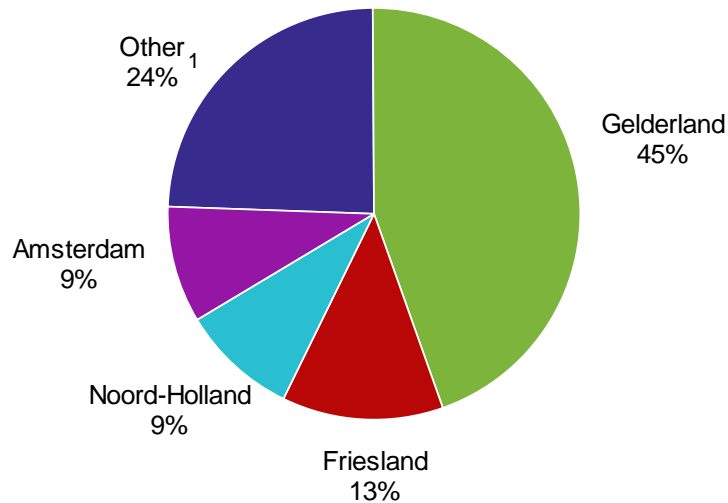
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# Stable Dutch public shareholder base



Alliander shareholders: Provinces & Municipalities



Alliander grid coverage of regions largely coincide with the shareholders base



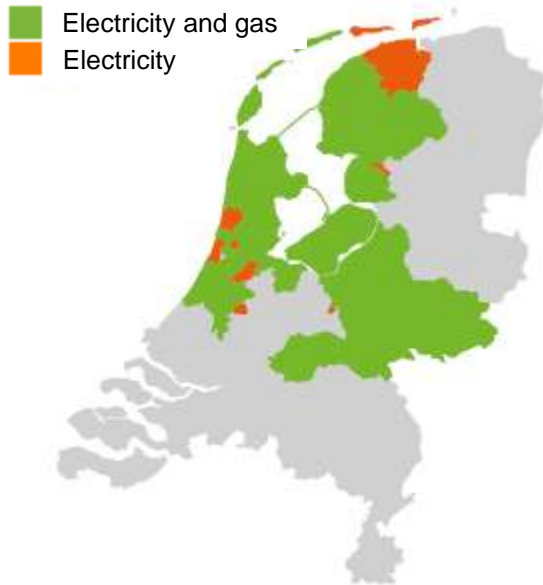
100% owned by Dutch provinces and municipalities and privatisation is not allowed by law

<sup>1</sup> Includes province of Flevoland, and various municipalities located in the provinces of Gelderland, Friesland, Flevoland, Zuid-Holland and Noord-Holland

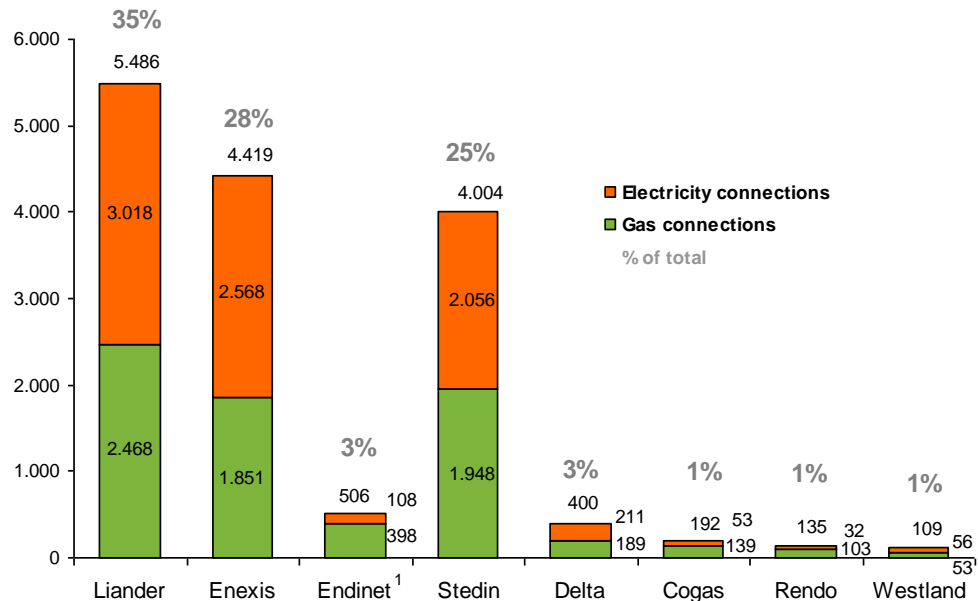
# Largest DSO in the Netherlands



## Liander service areas



## Number of connections (x1.000) per 1 January 2016



Source: ECN/EnergieNed/Netbeheer Nederland "Energy Trends 2016" publication

<sup>1</sup> Part of Enexis Holding

- Liander has 3.1 million electricity connections and 2.5 million gas connections in the Netherlands (31-Dec-2016)
- Liander has a market position of 35%

# Alliander is mainly active in the regulated part of the Dutch energy value chain



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

# Alliander's businesses: stable cash flow profile



- Regional Grid Manager: Management of regional electricity and gas grids
- Electricity & gas metering business
- Regulated assets
- Low risk profile due to regulatory environment



- 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 <sup>1</sup>		Eliminations		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
€ million										
<b>Operating income</b>										
External revenue	1.582	1.567	-	101	141	112	-	-	1.723	1.780
Internal revenue	3	6	-	-	331	329	-334	-337	-	-
<b>Total income</b>	<b>1.585</b>	<b>1.573</b>	<b>-</b>	<b>101</b>	<b>472</b>	<b>441</b>	<b>-334</b>	<b>-337</b>	<b>1.723</b>	<b>1.780</b>
<b>Operating expenses</b>										
<b>Total operating expenses</b>	<b>1.277</b>	<b>1.218</b>	<b>-</b>	<b>83</b>	<b>539</b>	<b>491</b>	<b>-334</b>	<b>-336</b>	<b>1.482</b>	<b>1.456</b>
<b>Operating profit</b>	<b>308</b>	<b>355</b>	<b>-</b>	<b>18</b>	<b>-67</b>	<b>-50</b>	<b>-</b>	<b>1</b>	<b>241</b>	<b>324</b>
<b>Total assets</b>	<b>6.985</b>	<b>6.448</b>	<b>-</b>	<b>508</b>	<b>2.386</b>	<b>2.609</b>	<b>-1.636</b>	<b>-1.907</b>	<b>7.735</b>	<b>7.658</b>

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

# Regulation – Recent developments

## Method decision

- In September 2016, method decisions of regulatory period 2017-2021 have been published, indicating:
  - 5-year price control period,
  - Gradually decreasing WACC
  - Allowed revenues will be set at the efficient cost level at the start of the new period
  - Costs of sufferance taxes will be fully compensated on an ex post basis
- The basics of the regulatory framework are unchanged

## Energy Transition Bill (VEt)

- Streamlining of the existing Electricity and Gas Acts
- Proposed new Energy Acts (STROOM) were rejected by Parliament in December 2015.
- In December 2016 the minister of Economic Affairs presented the Energy Transition Bill (VEt) to Parliament in December 2016. This Bill contains parts of the STROOM legislation
- No date set for approval in Dutch parliament

## Sufferance tax

- Municipalities increasingly levy sufferance tax. These costs can be recovered in the allowed revenues but with a delay.
- In February 2017 parliament voted in favour of the phase out of sufferance tax. A five year transitional period will be observed, allowing municipalities to levy sufferance tax up to 1 Jan-2022.

## Smart Meter

- Large scale offering started in 2015
- Alliander should have offered smart meters to all of its customers by 2020

## 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



# Current new regulatory period sees lower tariffs



## Current regulatory period

- Period: 1 Jan 2017 - 31 Dec 2021 (5-year period)
- WACC (real, pretax) starting at 4.0% in 2017 and decreasing gradually to 3.0% in 2021
- Positive x factors have been set that require a decrease in allowed revenue.
- Regulator has decided to use a combination of x factor decrease and a one-off increase in allowed revenue in 2017 and x factor reductions in 2018 to 2021
- Decrease in WACC compared to previous regulatory period is mainly due to lower risk free rates and risk spreads and lower expected inflation
- Revenue impact in 2017 is less than sum of one-off increase and x factor due to positive recalculations effect of previous years
- Annual allowed revenue in this period will on average be about 3.5% higher that of previous regulatory period

## Previous regulatory period

- Period: 1 Jan 2014 - 31 Dec 2016
- Positive x factors: 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)

## X factors

Electricity	2017-2021		2014-2016	
	x factor (%)	one-off (in € mln)	x factor (%)	one-off (in € mln)
	Liander	<b>1.90</b>	<b>-48</b>	4.36
Enexis	<b>2.13</b>	<b>3</b>	4.66	103
Stedin	<b>1.99</b>	<b>3</b>	4.35	72

Gas	2017-2021		2014-2016	
	x factor (%)	one-off (in € mln) *	x factor (%)	one-off (in € mln)
	Liander	<b>1.42</b>	<b>-67</b>	7.15
Enexis	<b>1.54</b>	<b>-48</b>	7.80	-
Stedin	<b>1.46</b>	<b>-42</b>	7.44	-

Source: ACM, Alliander

Note: negative amounts represent an increase in revenue

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# Key figures

## Key figures

€ million	2016	2015	2014	2013	2012
<b>Financial key figures</b>					
Revenue	1.584	1.540	1.594	1.744	1.674
Operating profit	207	339	484	457	394
Operating profit excluding incidental items and fair value movements	241	302	372	468	409
Profit after tax	282	235	323	288	224
Profit after tax excluding incidental items and fair value movements	132	211	240	287	228
Investments in property, plant and equipment	680	575	570	570	578
<b>Ratios</b>					
Net debt position <sup>1</sup>	1.693	1.735	1.617	1.718	1.785
Solvency <sup>2</sup>	58,5%	55,7%	53,6%	51,1%	49,5%
FFO / Net Debt <sup>2</sup>	26,6%	28,1%	34,0%	38,7%	30,1%
Outage Electricity (in minutes)	23,3	21,9	19,9	24,0	24,5

- 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.

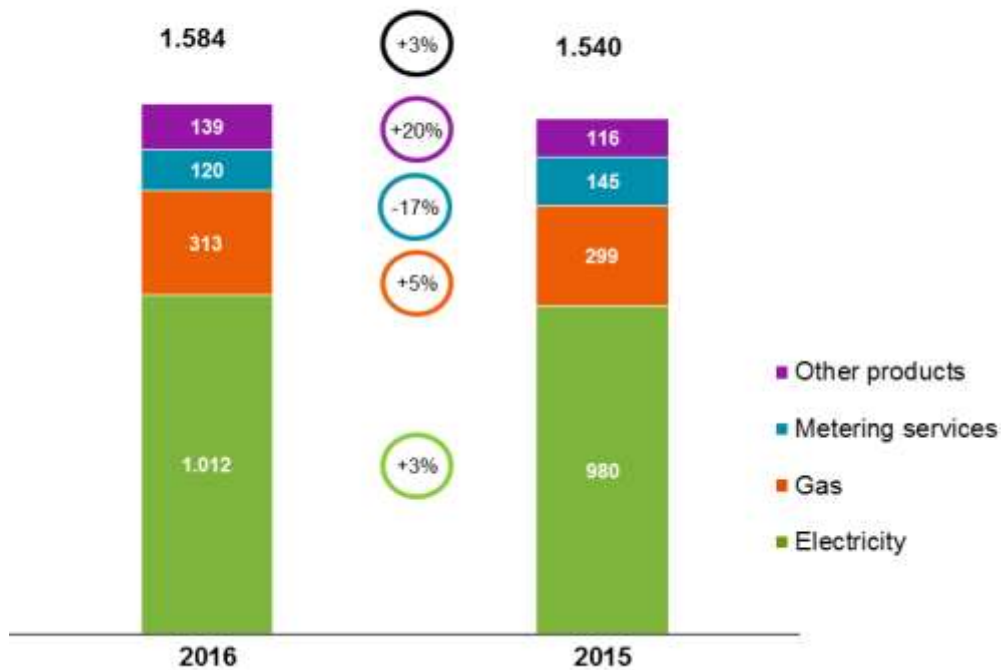
# Incidental items and fair value movements in the financial results

## Incidental items and fair value movements

€ million	2016	2015
Total purchase costs, costs of subcontracted work and operating expenses	-21	37
Depreciation and impairments	-13	-
<b>Impact on operating profit</b>	<b>-21</b>	<b>37</b>
Finance income/(expense)	-1	-6
<b>Total impact on profit before tax</b>	<b>-35</b>	<b>31</b>
Tax	9	-7
Profit after tax from continuing operations	-26	24
Profit after tax from discontinued operations	176	-
<b>Total impact on profit after tax</b>	<b>150</b>	<b>24</b>

# Revenue<sup>1</sup>

Revenue  
€ million

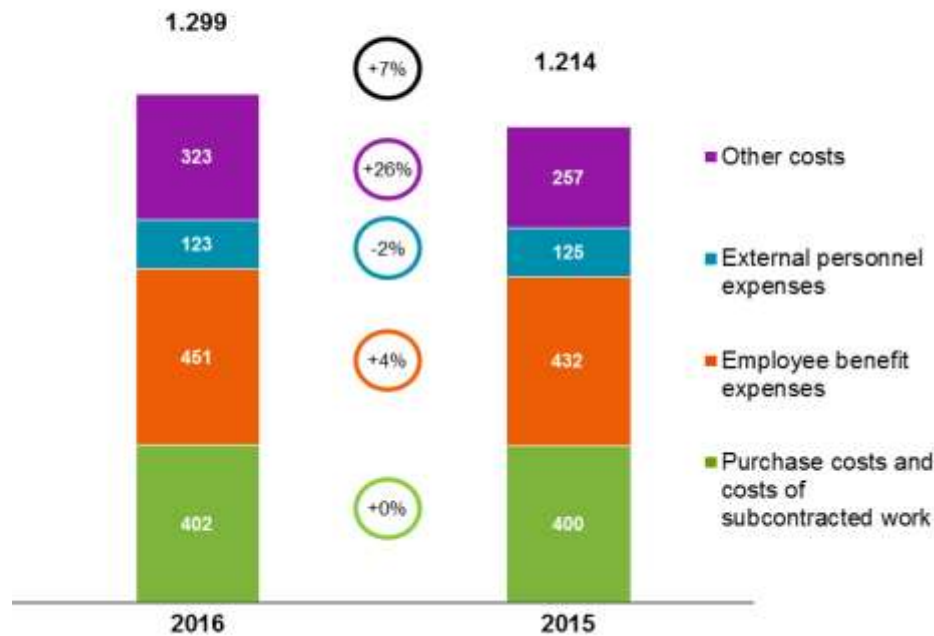


- Revenue increase is mainly due to inclusion of newly acquired service areas in Friesland and Noordoostpolder and growth in number of connections. Tariff decreases has negative impact on revenue

1) Excluding incidental items and fair value movements

# Purchasing costs, costs of sub-contracted work and operating expenses<sup>1</sup>

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

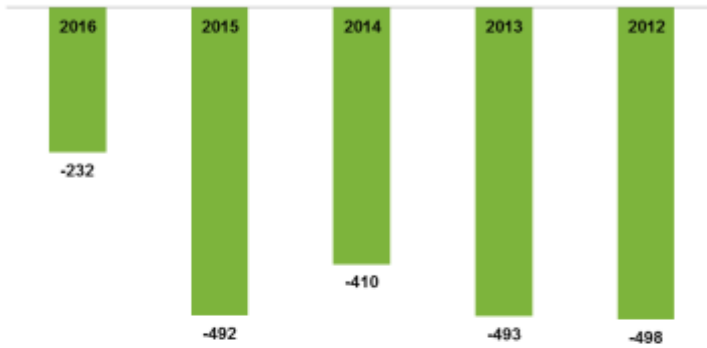


- Increase in cost is mainly due to a rise in surffrance tax, higher transport costs and higher ICT cost

1) Excluding incidental items and fair value movements

# Cash flows and Capex

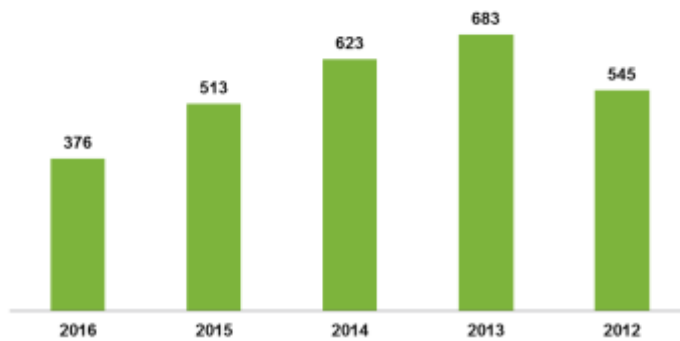
Cash flow from investing activities  
€ million



Free cash flow\*  
€ million



Cash flow from operations  
€ million



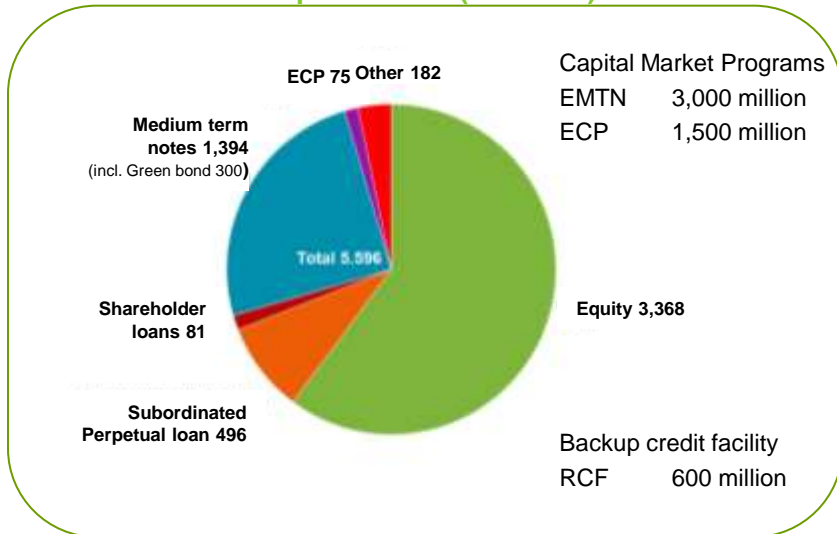
1) Free cash flow = Cash flow from operating activities – Cash flow from investing activities + investments in acquisitions

# Financial position

As of 31 December 2016



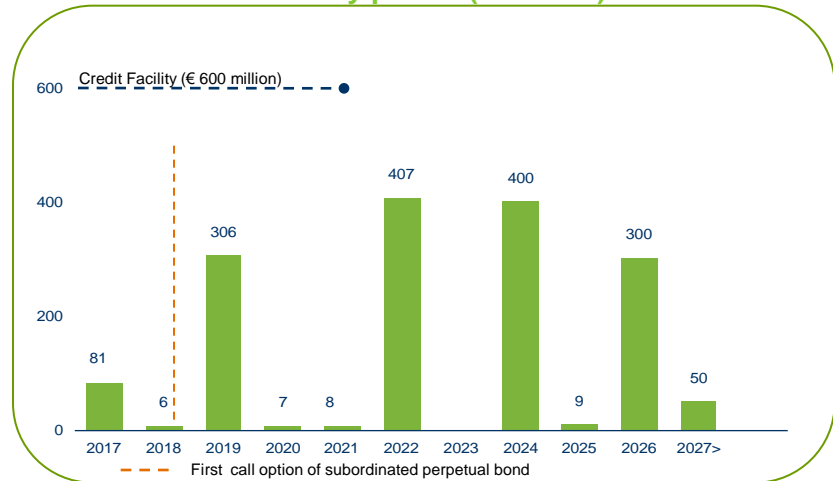
## Capitalisation (€ million)



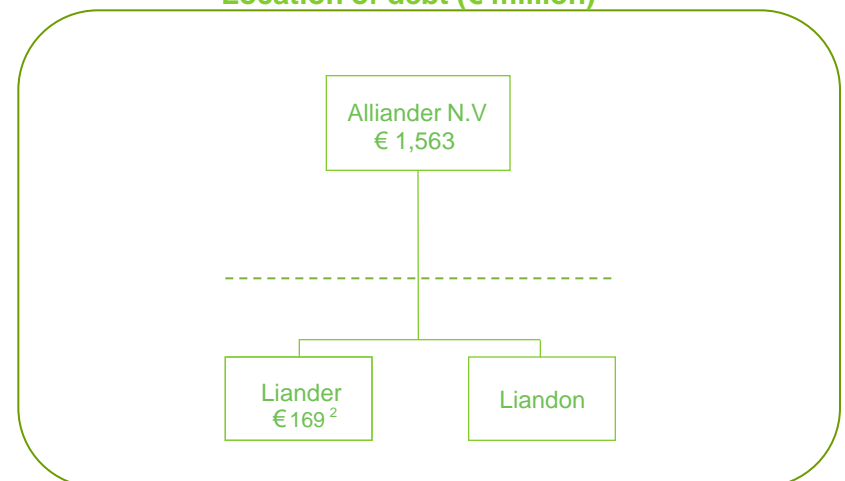
## Gross and net debt (€ million)

Gross Debt (including CBL related financial lease obligations)	1,732
Cash	48
Other Investments	15
CBL Investment	224
<b>Total Cash and Cash Equivalents</b>	<b>287</b>
Net debt according to IFRS	1,445
50% of subordinated perpetual bond	248
<b>Net debt according to financial policy</b>	<b>1,693</b>

## Maturity profile (€ million)<sup>1</sup>



## Location of debt (€ million)

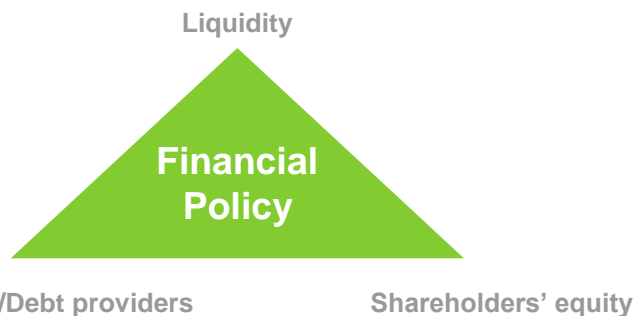


1) Excluding € 168 million financial lease liabilities Liander

2) Including € 168 million financial lease obligations Liander



# 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<sup>1</sup>

## 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

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Part of overall policy and strategy</li> <li>• Balance between protection of debt providers and shareholder returns</li> <li>• Financial strength and discipline</li> </ul> | <ul style="list-style-type: none"> <li>• Maintain cushion relative to regulatory criteria</li> <li>• Flexibility to grow and invest</li> <li>• Transparent reporting</li> <li>• No structural subordination</li> </ul> |
|--|--|

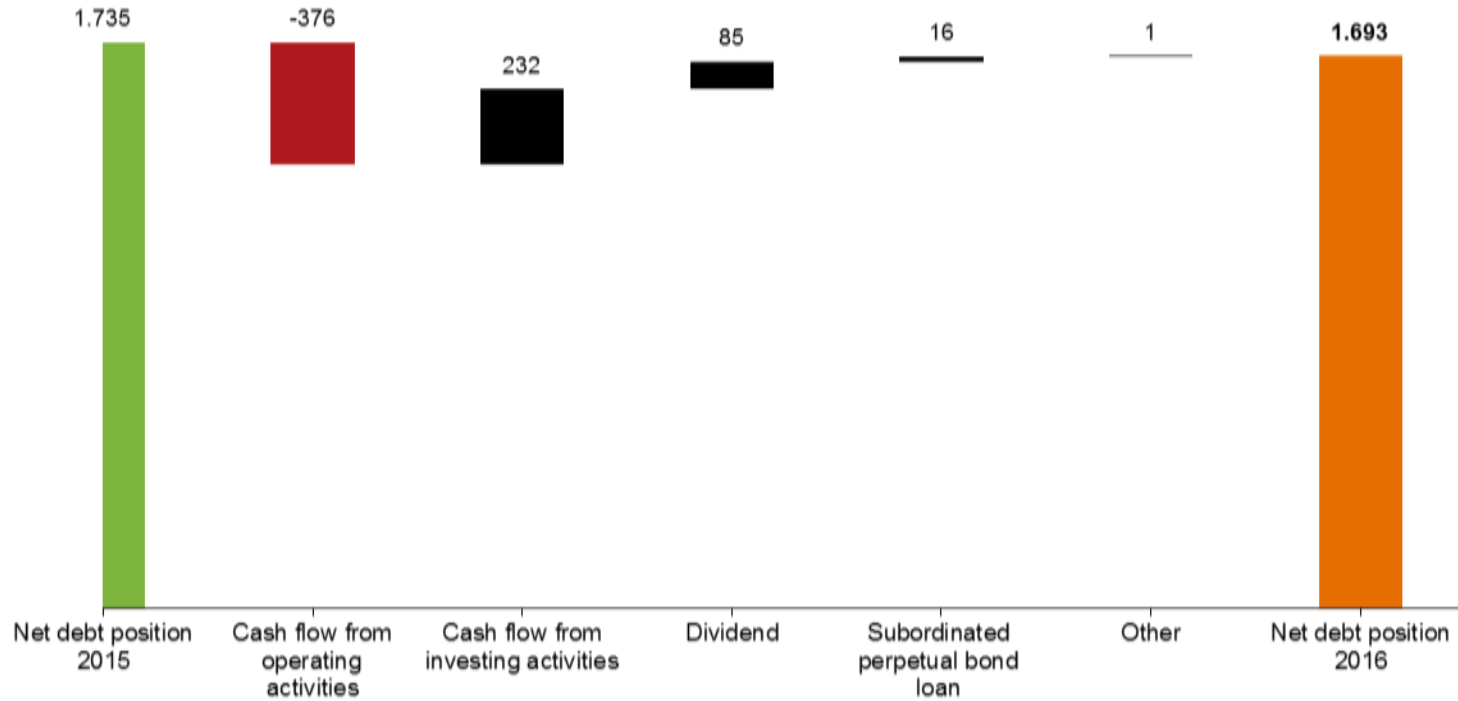
**Strong financial profile with clear and well defined financial policy, supported by regulated financial ratios and proven commitment to stay within financial policy framework**

<sup>1</sup> See page 40

# Net debt



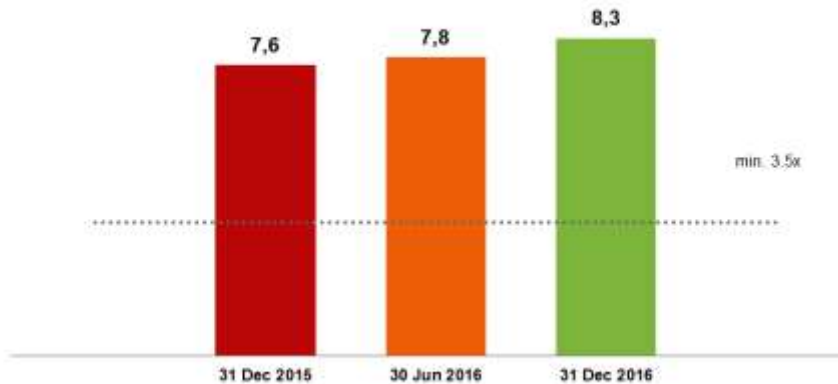
Development net debt position  
€ million



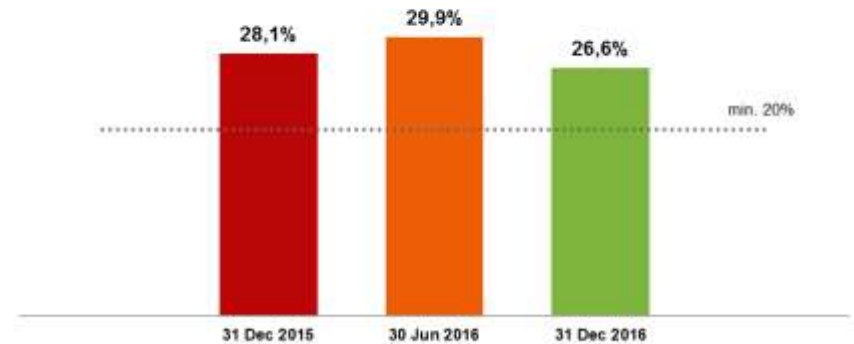
# Ratios financial policy<sup>1</sup>



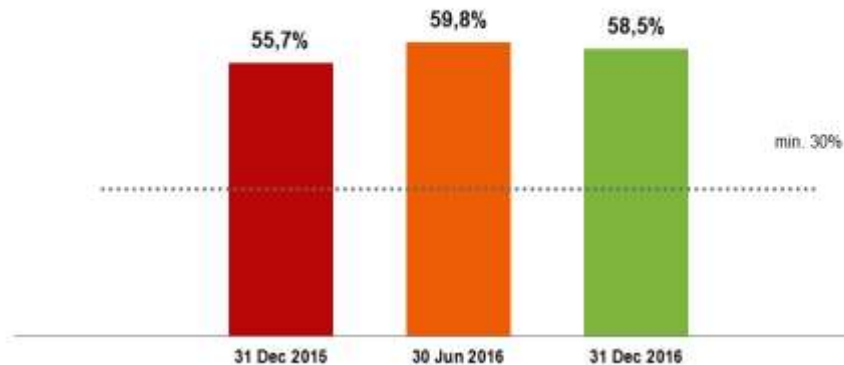
Interest cover<sup>2</sup>



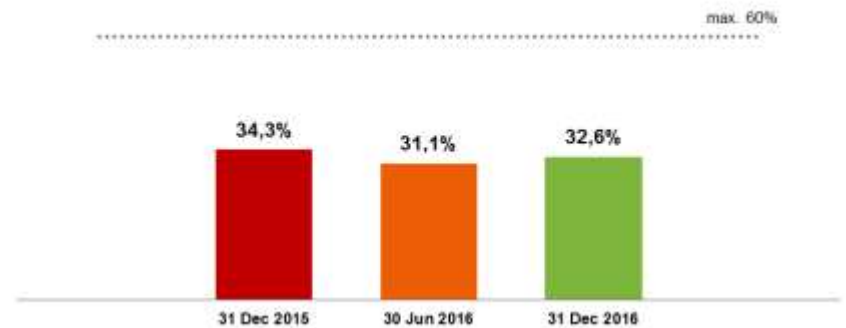
FFO / Net Debt<sup>3</sup>



Solvency<sup>4</sup>



Net debt / capitalisation<sup>5</sup>



- 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

# Strong credit ratings



Moody's Investors Service

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

## 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
- **Well-defined stable and transparent regulatory regime**, but allowed returns continue to decline
- **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 an A2 issue rating to Alliander's subordinated perpetual bond and 50% equity weight (20-Nov-13)

STANDARD  
& POOR'S

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

## 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, Netherlands based monopoly** in service areas, **good operating 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 **cost of capital largely aligned with regulatory assumptions** used to set rates
- **Stable outlook** reflects the view that Alliander will be able to sustain adjusted FFO to debt of 25% or better given slightly higher-than-expected regulated returns and lower interest expense in the next two years.
- 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 July 29<sup>th</sup> 2016. Standard and Poor's as of December 19<sup>th</sup>, 2016.

# Sustainability rating and transparency



## Socially responsible investment

- Alliander's has prime rating by **oekom Research**
  - Rated since 2011
  - Target level is a Prime rating
- Alliander N.V. has been selected for the investment universe of **Triodos Bank** and included in the **Ethibel EXCELLENCE** Investment Register



## Transparency

- Our Annual Report 2015 has been awarded with :
  - The **Crystal Prize**, the top honour of the annual **Dutch Transparency Benchmark** of the Dutch Ministry of Economic Affairs (November-2016)
  - The **Henri Sijthoff Award** for best financial reporting in the non-equity listed category (October-2016)
- Alliander has based its Corporate Social Responsibility report on the **Global Reporting Initiative** (GRI) guidelines
  - Reports since 2008
  - Reporting over 2015 at comprehensive / GRI G4 with external assurance



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- **Detailed results 2016**

- Other

# Results<sup>1</sup>

Consolidated income statement		
€ million	2016	2015
Revenue <sup>1</sup>	1.584	1.540
Other income <sup>1</sup>	139	140
<b>Total income</b>	<b>1.723</b>	<b>1.680</b>
<b>Operating expenses</b>		
Purchase costs and costs of subcontracted work	-402	-400
Employee benefit expenses	-462	-444
External personnel expenses	-123	-125
Other operating expenses	-333	-208
<b>Total purchase costs, costs of subcontracted work and operating expenses</b>	<b>-1.320</b>	<b>-1.177</b>
Depreciation and impairment of property, plant and equipment	-395	-338
Less: Own work capitalised	199	174
<b>Total operating expenses</b>	<b>-1.516</b>	<b>-1.341</b>
<b>Operating profit</b>	<b>207</b>	<b>339</b>
Finance income	18	54
Finance expense	-72	-125
Result from associates and joint ventures after tax	-5	-4
<b>Profit before tax</b>	<b>148</b>	<b>264</b>
Tax	-42	-67
Profit after tax from continuing operations	106	197
Profit after tax from discontinued operations	176	38
<b>Profit after tax</b>	<b>282</b>	<b>235</b>

1) There has been a change of view which, in the comparative figures for 2015, results in the transfer of an amount of € 46 million in respect of operating contributions and other operating income from other revenue to the item 'Other income'.

# Consolidated balance sheet



Consolidated balance sheet		
€ million	2016	2015
<b>Assets</b>		
Property, plant and equipment	6.529	5.899
Intangible assets	319	280
Investments in associates and joint ventures	9	9
Available-for-sale financial assets	224	229
Other financial assets	38	42
Deferred tax assets	216	248
<b>Non-current assets</b>	<b>7.335</b>	<b>6.707</b>
Inventories	64	54
Trade and other receivables	273	238
Other financial assets	15	25
Cash and cash equivalents	48	89
<b>Current assets</b>	<b>400</b>	<b>406</b>
Non-current assets held for sale	-	613
<b>Total assets</b>	<b>7.735</b>	<b>7.726</b>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Share capital	684	684
Share premium	671	671
Subordinated perpetual bond	496	496
Revaluation reserve	46	53
Other reserves	1.685	1.548
Profit after tax	282	235
<b>Total equity</b>	<b>3.864</b>	<b>3.687</b>
<b>Liabilities</b>		
Interest-bearing debt	1.483	1.197
Finance lease liabilities	168	162
Deferred income	1.597	1.559
Provisions for employee benefits	50	49
Deferred tax liabilities	5	-
Other provisions	5	3
<b>Non-current liabilities</b>	<b>3.308</b>	<b>2.970</b>
Trade and other payables	122	133
Tax liabilities	63	101
Interest-bearing debt	81	471
Provisions for employee benefits	46	53
Accruals	251	216
<b>Short-term liabilities</b>	<b>563</b>	<b>974</b>
<b>Liabilities held for sale</b>	<b>-</b>	<b>95</b>
<b>Total liabilities</b>	<b>3.871</b>	<b>4.039</b>
<b>Equity and liabilities</b>	<b>7.735</b>	<b>7.726</b>



# Cash flow statement

<b>Consolidated cash flow statement</b>		
€ million	2016	2015
<b>Cash flow from operating activities</b>		
<b>Profit after tax</b>	<b>282</b>	<b>235</b>
Adjustments for:		
- Finance income and expense	54	71
- Tax	42	80
- Results from associates and joint ventures after tax	5	4
- Depreciation and impairment less amortisation	329	282
- Release of provision CDS after tax	-	-49
Book profit sale Endinet	-176	-
Changes in working capital:		
- Inventories	-7	-17
- Trade and other receivables	10	6
- Trade and other payables and accruals	20	51
<b>Total changes in working capital</b>	<b>23</b>	<b>40</b>
Changes in deferred tax, provisions, derivatives and other	-32	-26
<b>Cash flow from operations</b>	<b>527</b>	<b>637</b>
Net interest paid	-65	-65
Net interest received	2	2
Corporate income tax paid (received)	-88	-61
<b>Total</b>	<b>-151</b>	<b>-124</b>
<b>Cash flow from operating activities</b>	<b>376</b>	<b>513</b>
<b>Cash flow from investing activities</b>		
Investments in property, plant and equipment	-680	-575
Construction contributions received	99	85
Investments and divestments in financial assets (associates and joint ventures)	-5	-2
Cash flow from the reparcelling operation	359	-
Cash flow from the acquisition of 450connect GmbH	-5	-
<b>Cash flow from investing activities</b>	<b>-232</b>	<b>-492</b>
<b>Cash flow from financing activities</b>		
Redemption EMTN	-100	-
ECP financing issued (redemption)	29	-112
Long-term debt issued (redemption)	-27	4
(Redemption) loans granted	4	9
Received (granted) current deposits	10	-
Redemption available-for-sale investements	-	141
Reimbursement subordinated perpetual bond	-16	-16
Dividend paid	-85	-125
<b>Cash flow from financing activities</b>	<b>-185</b>	<b>-99</b>
<b>Net cash flow</b>	<b>-41</b>	<b>-78</b>
Cash and cash equivalents as at 1 January	89	167
Net cash flow	-41	-78
<b>Cash and cash equivalents as at 31 December</b>	<b>48</b>	<b>89</b>

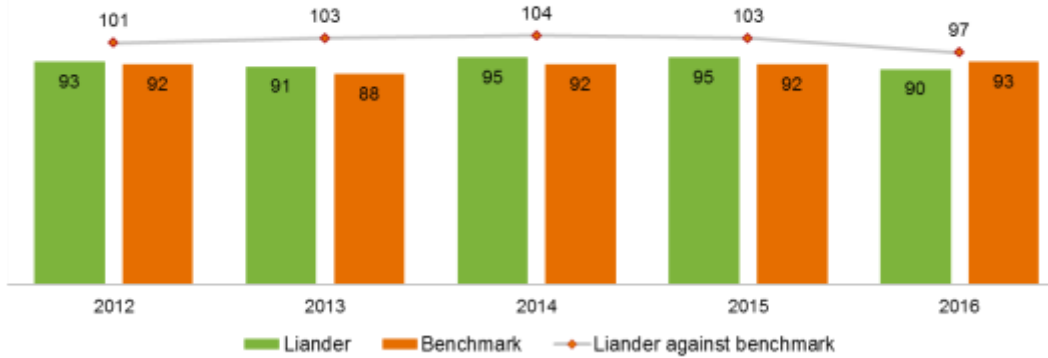
# Content

1. Highlights
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  - Detailed results 2016
  - **Other**

# Customer satisfaction

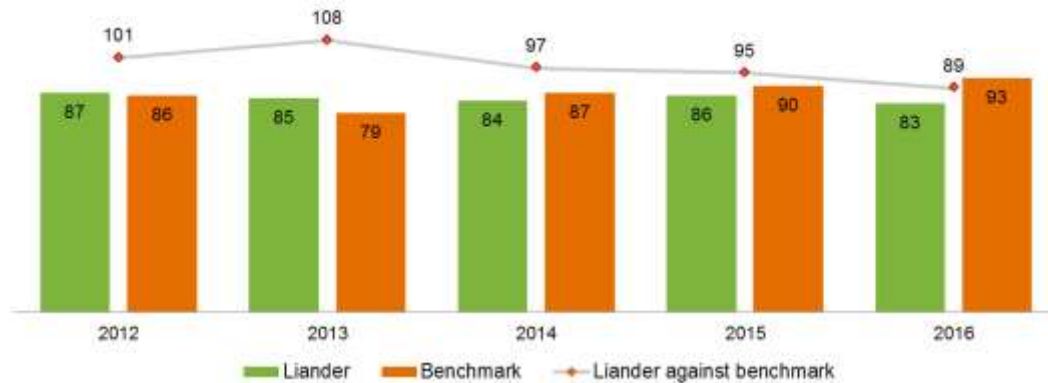


Customer Satisfaction Consumer Market (%)



- Decrease in customer satisfaction in consumer market
- Relative position under the benchmark

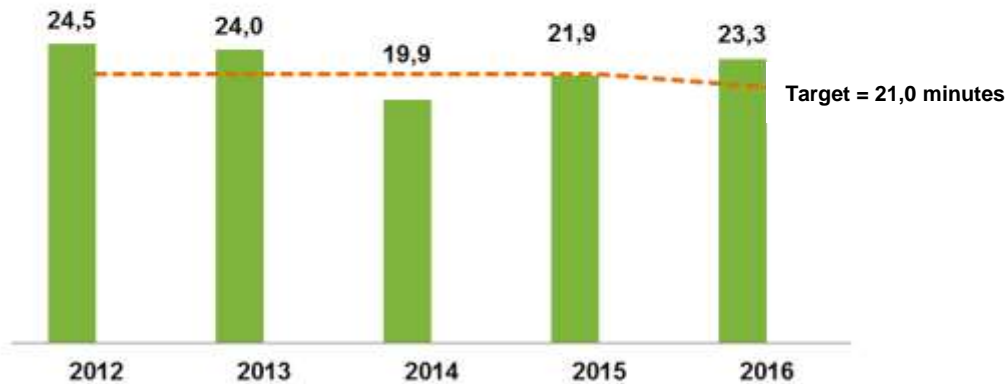
Customer Satisfaction Business Customers (%)



- Decrease in customer satisfaction in business market
- Relative position under the benchmark

# Grid reliability

Average outage electricity per customer (min)



- 12-month average outage duration increased
- Outage duration exceeding objective of max 21 minutes by more than 2 minutes
- Maximum outage duration for next years is 21 minutes

Number of postcode areas with more than five interruptions per year



- Number of postcode areas with more than five interruptions annually has increased from 10 to 17 during last 12 months
- Number of postcode areas is slightly exceeding 2016 objective of max 16
- Objective for next few years has changed. Starting in 2017 the objective is to set maximum number of unique cable numbers with more than 5 interruptions per year at 18

# Cross border leases – Basic structure



## Basic structure in steps

### At transaction closing:

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

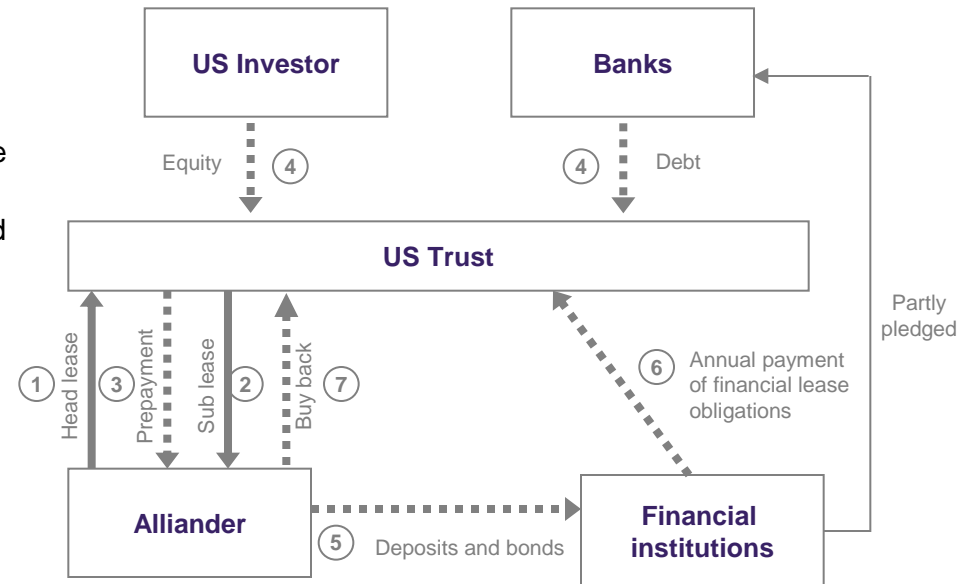
### During transaction:

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

### At end of sublease:

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

## 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

	3 leases	3 leases
US leases	31 Dec 2016	31 Dec 2015

in USD million

Equity strip risk	194	181
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Overview Letters of Credit	31 Dec 2016	31 Dec 2015
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in USD million

Issued	-	-
Additional L/C's at A3/A-	140	129
Additional L/C's at Baa1/BBB+	24	23

Back-up facility	31 Dec 2016	31 Dec 2015
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in EUR million

Back-up L/C facility	-	100
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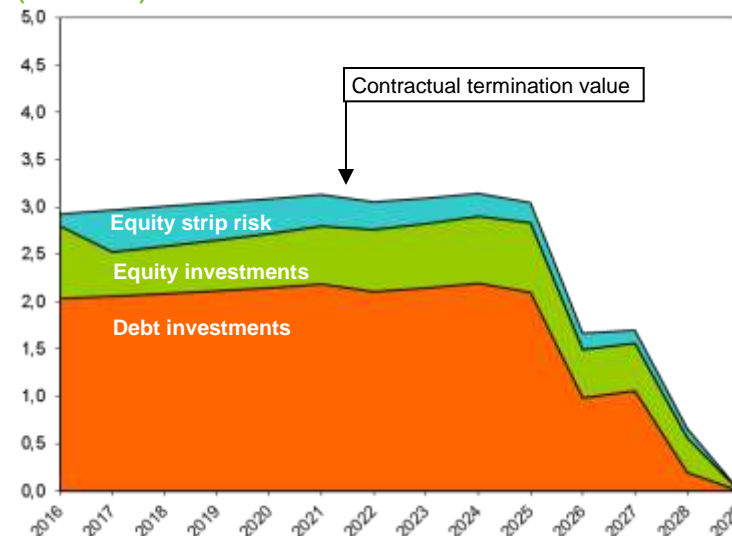
### Changes in 2016

- Termination of the back-up L/C facility due to elimination L/C need at current rating levels

### CBL related risks

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

## Contractual termination values CBL's Alliander (USD billion)



### Contractual termination value

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

# Alliander activities in Germany



## Strategy

- Innovative service provider working closely together with our partners in the energy business and municipalities to support them in creating a new energy architecture for network operation, public lighting and traffic lights.
- Apply Alliander technology and services in Germany
- 2016 Start-up of new acquired telco business

## Existing activities (2016)

- Revenue of €36m and total assets of €65m
- Activities:
  - Public Lighting activities in various cities (60% of revenue)
  - Network operations in various cities (40% of revenue)
  - Build-up of Telco business in Cologne
- 161 employees (155 FTE)
- Number of electricity connections: 15,600 (Heinsberg)
- Number of gas connections: 4,700 (Heinsberg and Waldfeucht)
- 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)

## Newly started activities (2016)

- Acquisition of two 450Mhz nationwide licences for mobile communication to establish a utility telecommunication infrastructure (like CDMA telecom activities in The Netherlands)

## Investment

- In 2017/18 about €12m (for build up of telco business in Germany)

## Alliander activities in Germany



- Telco for utilities
- Public lighting (pl)
- Electricity and gas (e+g)
- Gas (g)
- Traffic lights

\* Infra structure services for industry

# 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-/Baa3)or
  - EBIT interest cover  $\geq 1.7x$
  - FFO interest cover  $\geq 2.5x$
  - FFO to total debt  $\geq 11\%$
  - Debt to total Cap  $\leq 60\%$