

A photograph of a wind farm at sunset. The sky is a mix of deep blue and orange, with clouds catching the low sun. The water in the foreground is dark with some ripples. The wind turbines are silhouetted against the bright horizon.

Sharing energy

Annual Report 2014

alliander

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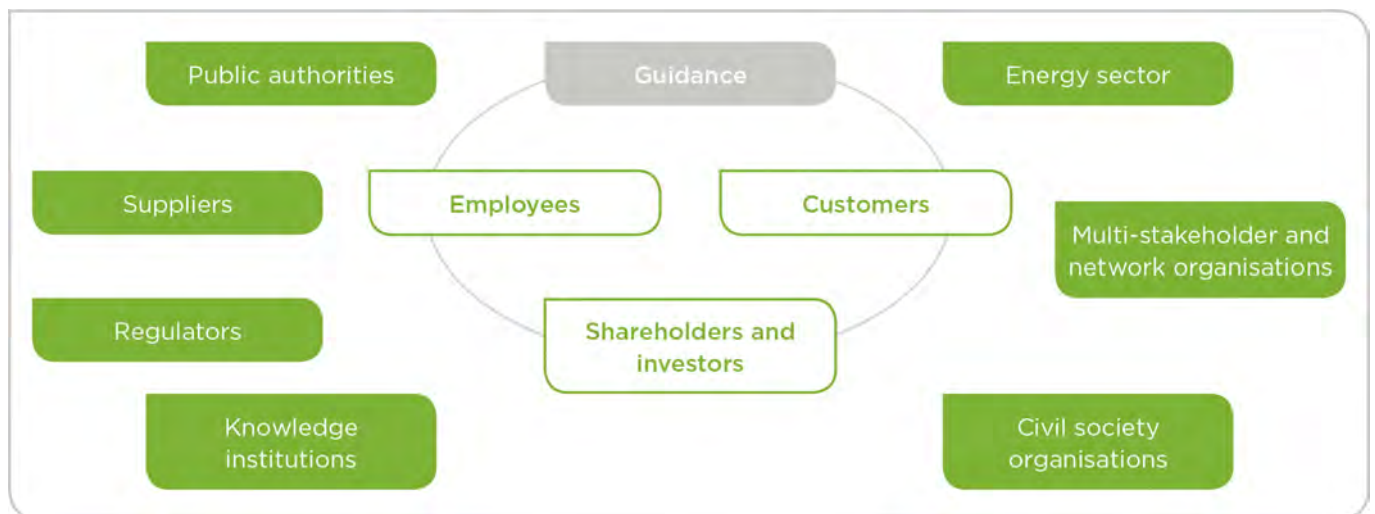


About this report

About this report

This annual report is an account of our activities in 2014 and centres around transparency and an open dialogue with stakeholders.

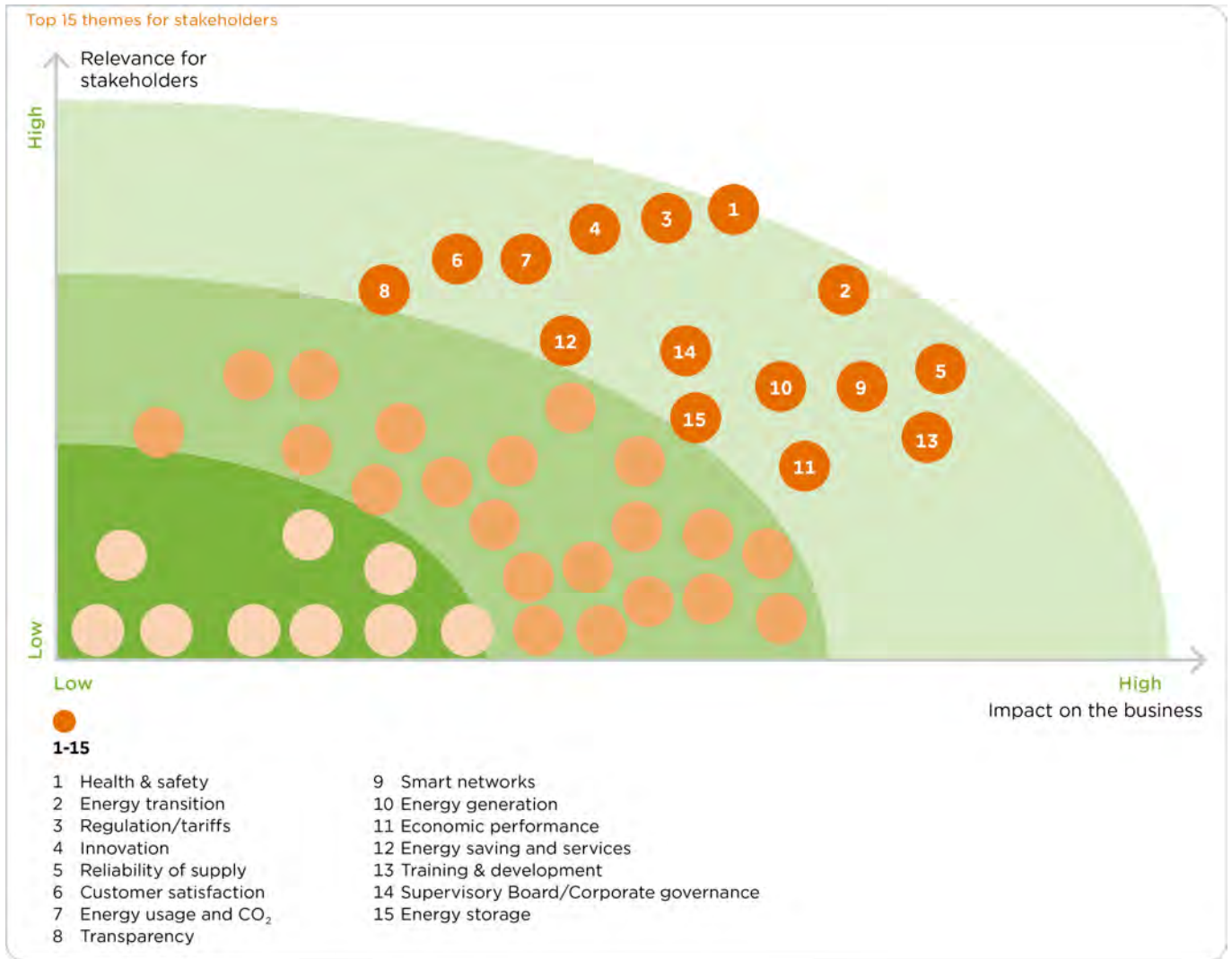
The structure of our annual report is based on three stakeholder groups: customers, employees and shareholders and investors. This approach corresponds with Alliander's control model. Our continuous dialogue with these and other stakeholder groups gives us greater insight into trends and needs within society. It also enables us to exchange thoughts and ideas, and to test our proposed policy choices and decisions among stakeholders. You can read more about our stakeholder materiality test in the '[Other information](#)' chapter.



Stakeholder dialogue forms the basis for our report

We asked our stakeholders what subjects they thought we should report on. Drawing on this input, we selected a list of fifteen themes that form the basis of the annual report. Alongside traditional priorities such as safety and reliability of supply, our stakeholders are increasingly interested in energy transition and innovation. We have therefore devoted extensive coverage to these aspects.

The illustration below depicts the top fifteen themes designated by stakeholders.



For the complete materiality test see ‘[Other information](#)’.

Financial and CSR reporting

The financial information in this annual report is consolidated for Alliander and all its subsidiaries. The financial reporting is prepared in accordance with the International Financial Reporting Standards (IFRS) and relevant provisions in the Dutch Civil Code.

The CSR information is consolidated for Alliander and its three main subsidiaries: Liander, Endinet and Liandon. The most material subjects identified by the stakeholders mainly relate to the activities of these business units. The Corporate Social Responsibility (CSR) reporting was prepared in compliance with the guidelines of the Global Reporting Initiative (GRI) and the Electric Utilities Sector Supplement. Alliander’s annual report for 2014 complies with the GRI G4 reporting guidelines.

Transparency

Like us, our stakeholders attach great value to transparency. The company’s ambition in the field of reporting is to remain a leader in the Transparency Benchmark of the Ministry of Economic Affairs and to maintain GRI G4 compliance in the coming years. Moreover, in the years ahead even more weight will be given to the position of stakeholders by putting our dialogue with them on a more professional footing. Alliander applies the Transparency Directive and the relevant provisions from the Dutch Corporate Governance Code and the Decree on Corporate Governance 2009.



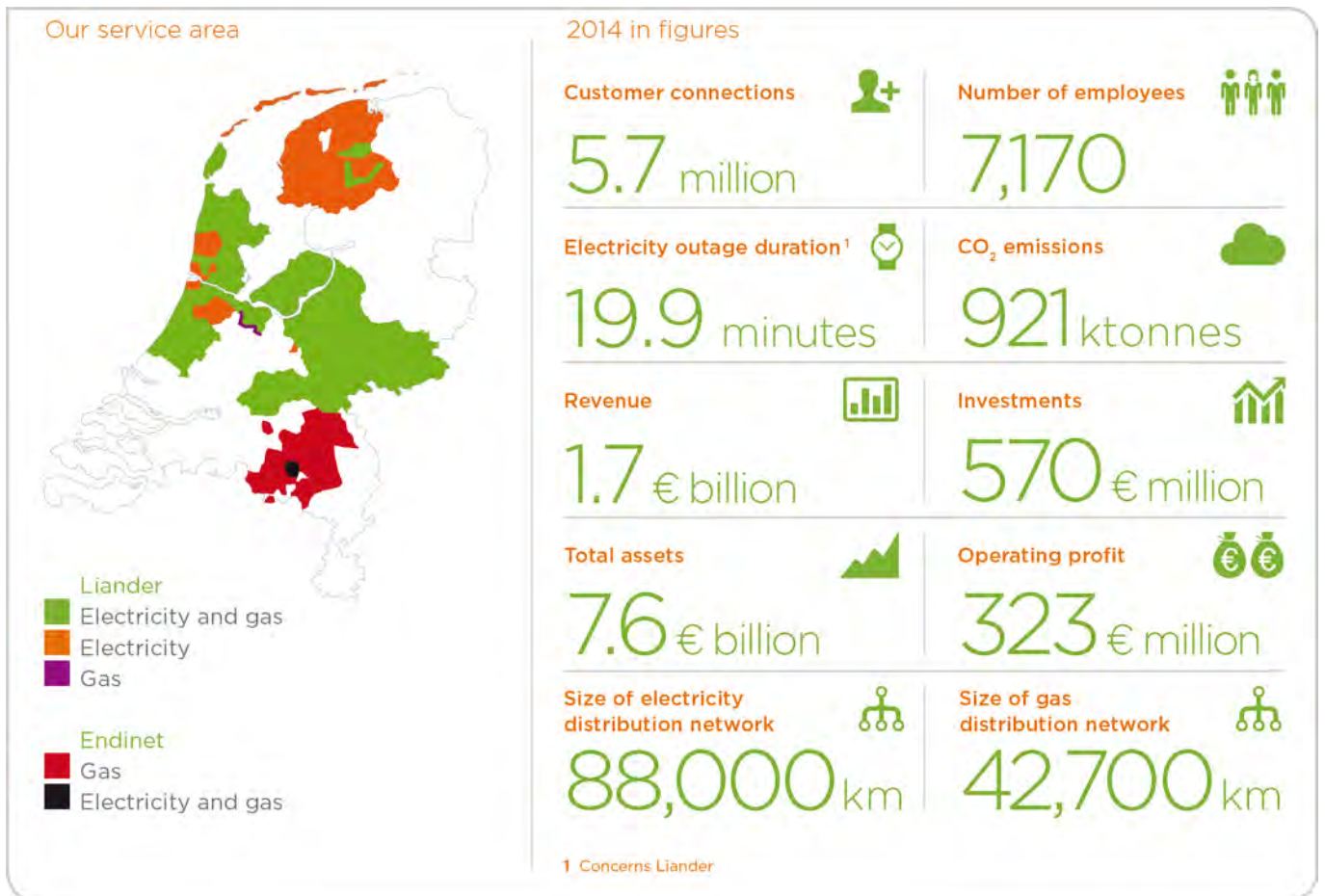
About Alliander

Company profile

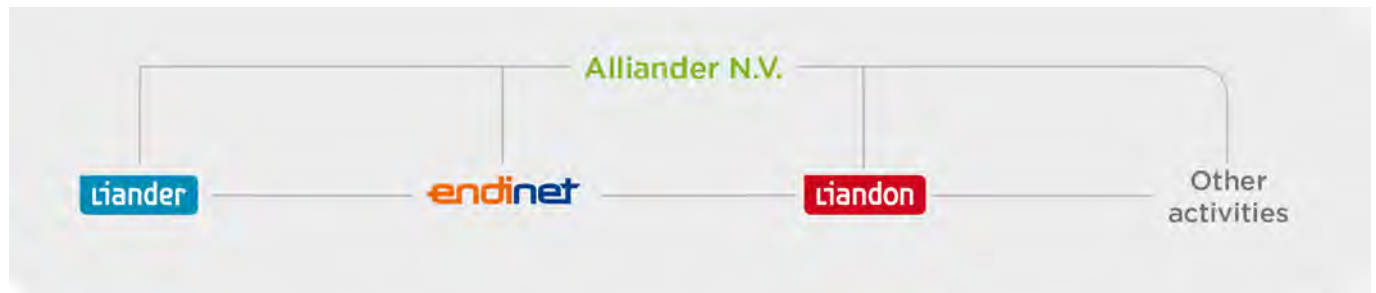
Alliander is an energy network company, which incorporates a number of group companies. Our work is to secure both today's and tomorrow's energy distribution.

Network operation is our core activity. Our network operators Liander and Endinet keep the energy infrastructure in good condition in order to provide millions of consumers and businesses with their daily gas and electricity. In short, they ensure that everyone has access to energy through our networks.

In addition, Alliander is developing activities in new markets, with a view to promoting energy transition, i.e. the development towards a more sustainable society.



Organisational structure



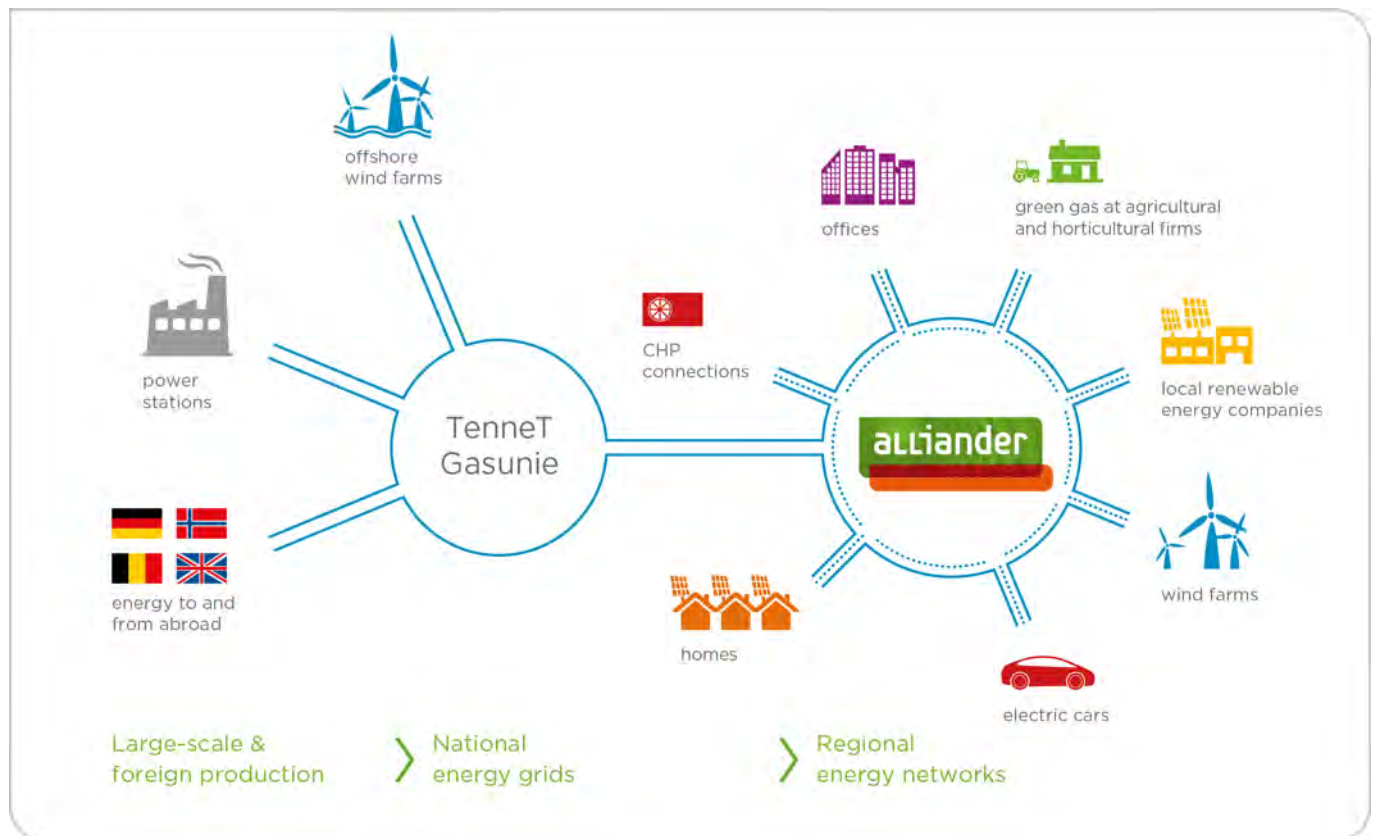
The network operators Liander and Endinet are part of Alliander. Liandon, our dedicated knowledge centre, is responsible for numerous technical innovations in the area of electricity, gas and heat transportation and distribution.

The shareholders of Alliander are Dutch provinces and municipalities. The largest shareholders are the provinces of Gelderland, Friesland and Noord-Holland and the municipality of Amsterdam. For more information about our legal structure, visit alliander.com or read more about our corporate governance in [the Governance chapter](#).



Our role in the energy sector

The vast majority of the energy we distribute in our regions comes from the national and international energy networks of TenneT and Gasunie. In addition, a growing number of consumers and businesses are feeding their self-generated energy into our networks. This is making the energy supply chain more dynamic. Alliander ensures that all energy is distributed as efficiently as possible – for instance, from wind turbines to households or electric vehicle charging points.



Our mission and vision



Mission

We are striving for a better society in the regions we serve.

Vision

The energy landscape is changing. Energy is now produced both centrally and locally, and new energy sources and applications are emerging. Innovative services are being introduced in such fields as electric transport, energy saving, energy management and local energy generation. This changing landscape makes different demands on our infrastructure, provision of information, and partnerships. Alliander aims to play a facilitating role in the energy transition. We are helping to create an open energy market and to support the sustainable energy choices of our customers and the regions where we operate.

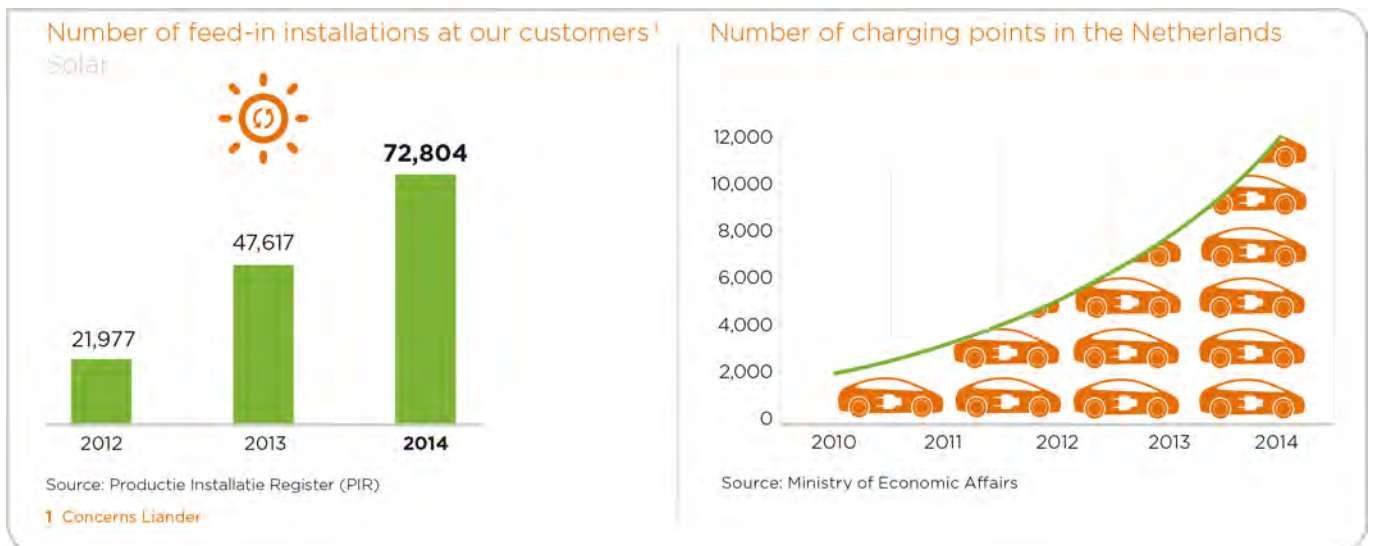
Trends and market developments

It is vital for Alliander to respond quickly to developments that affect our customers and our activities. In 2014, we carried out a study into trends that may be indicators of future changes.

Developments in the energy market

Consumers and businesses are using more and more electrical applications in their daily lives and activities. As a result, they are becoming further dependent on electricity and count on an uninterrupted energy supply. At the same time, there is an increasing focus on sustainability and energy saving. A growing number of customers are opting to generate their own energy, thus acting as producers as well as consumers.

Various stakeholders are exploring the opportunities of renewable energy. We see that more consumers are making their homes increasingly sustainable. Houses are being equipped with better insulation and the take-up of solar panels is growing thanks to falling prices and improving quality. In addition, the introduction of stricter requirements for new houses and buildings has led to the adoption of heat pumps: no less than 500,000 homes are expected to be fitted with a heat pump by 2020. Electric cars are also growing in popularity. Tax incentives and the steadily expanding network of charging points are important stimuli for this market. Meanwhile, agricultural firms are warming to the potential of biogas and solar meadows. Municipalities are keen to promote heating networks which can make a strong contribution to achieving local and regional sustainability objectives.



Political and regulatory developments

One focus area is the implementation of the national Energy Agreement, which sets out specific sustainability and energy-saving objectives: 14% of all energy must be generated from renewable sources by 2020, rising to 16% in 2023. The updating of legislation and regulations will help us to respond effectively as a flexible network company to new demands and opportunities. As part of an overall regulatory review, the existing electricity and gas laws are to be integrated and modernised in an overarching Electricity and Gas Act in 2015, thereby creating a single effective statutory framework to facilitate the envisaged energy transition. A pan-European energy market that is increasingly influenced and regulated at European level is steadily coming to the fore. Key issues include the organisation and tasks of network operators and network companies, tariffs and decentralised energy generation.





Developments in information technology

Smart automated applications are increasingly becoming an integral part of our daily lives. ICT and data technology are advancing rapidly and 'online' is the standard for a growing number of services. The rapid advent of the mobile internet and connected devices, also known as 'the internet of things', has resulted in a wave of new and unprecedented product and service offerings. And the need for privacy protection is growing accordingly. In line with these developments, ICT and data are also increasingly central to the operations and services of Alliander.

Our opportunities and challenges

Every year, we analyse current trends and market developments to assess where our opportunities and challenges lie. This helps us make well-balanced assessments and targeted policy choices as part of our efforts to optimally promote our stakeholders' energy ambitions.

Where are our opportunities and challenges?

 <p>Strengths</p> <ul style="list-style-type: none"> • Satisfied customers • High reliability of energy supply • Good technical expertise of employees • Good employment practices • Solid financial position • Engaged with our communities • Sustainable partner 	 <p>Weaknesses</p> <ul style="list-style-type: none"> • Limited opportunities for increases in scale • High CO₂ emissions related to energy transportation • Limited speed of adaptability of business processes • Less than optimal efficiency in operations
 <p>Opportunities</p> <ul style="list-style-type: none"> • Asset swapping and consolidation • Investments in telecom and digitisation • Partnerships with municipalities and energy cooperatives • Investments in new markets and start-ups, such as sustainable area development, electric mobility and sustainable housing 	 <p>Threats</p> <ul style="list-style-type: none"> • High pace of energy transition • Impact of third parties on the continuity of our networks (e.g. excavation damage) • Cybercrime

Strategy

Given current trends and developments, we expect fundamental changes in the energy supply of the future, with greater emphasis on sustainability, flexibility and active participation of our customers. These developments call for a clear strategy on the part of Alliander. In 2014, we shaped our strategy around three pillars: operations, innovation and growth.

We are in continuous dialogue with our stakeholders and we take their considerations and expectations on board in our strategic choices. To help them facilitate the energy transition and promote a more sustainable society, Alliander is contributing to an open energy market and enabling customers to make sustainable energy choices. Essential to this endeavour is the timely and effective adjustment of our networks to the evolving market. A strong and efficient organisation is vital to help us achieve this.

Uncertainties surrounding the pace and scale of market developments makes it difficult for us to predict where and when our networks will require adjustment. Innovation and technology are therefore central to our strategy. By setting up test beds, participating in initiatives and undertaking our own innovative activities, we acquire the knowledge and experience we need to ensure our networks are even better equipped to meet the demands of the future. We are active in such areas as smart networks, electric car charging infrastructures, local electricity trading platforms and alternative energy flows (such as heating). Investments in these innovations are crucial, particularly as the energy transition may rapidly gather pace in the years ahead.

To keep these investments affordable, we want to grow in scale and achieve procurement synergies. Co-operation within the sector is obvious. The advantage of co-operation is that it can be realised in the relatively short term. In summary, our strategy is focused on three pillars: operations, innovation and growth with the objective of ensuring reliable, affordable and increasingly sustainable energy for our stakeholders, both now and in the future.



Thanks to our strategic choices we create added value for society and our stakeholders. In addition to facilitating the transition to a renewable energy supply, we seek to promote sustainability in other areas for the benefit of wider society. Our emphasis here is on CO₂ reduction, continuous stakeholder dialogue and sustainable procurement.

Implementation and control

In the Alliander year plan, our strategy is translated into short-term objectives. Based on this input, our business units formulate plans outlining their contribution to our business and societal objectives. Management and accountability procedures for achieving our objectives are laid down in our corporate governance structure. Meanwhile, a planning and control cycle is in place to monitor realisation. Every month, the key stakeholder-specific performance indicators are reported on and discussed with the Management Board. The progress of the implementation of our strategy and the year plan are reviewed with the Supervisory Board on a quarterly basis.

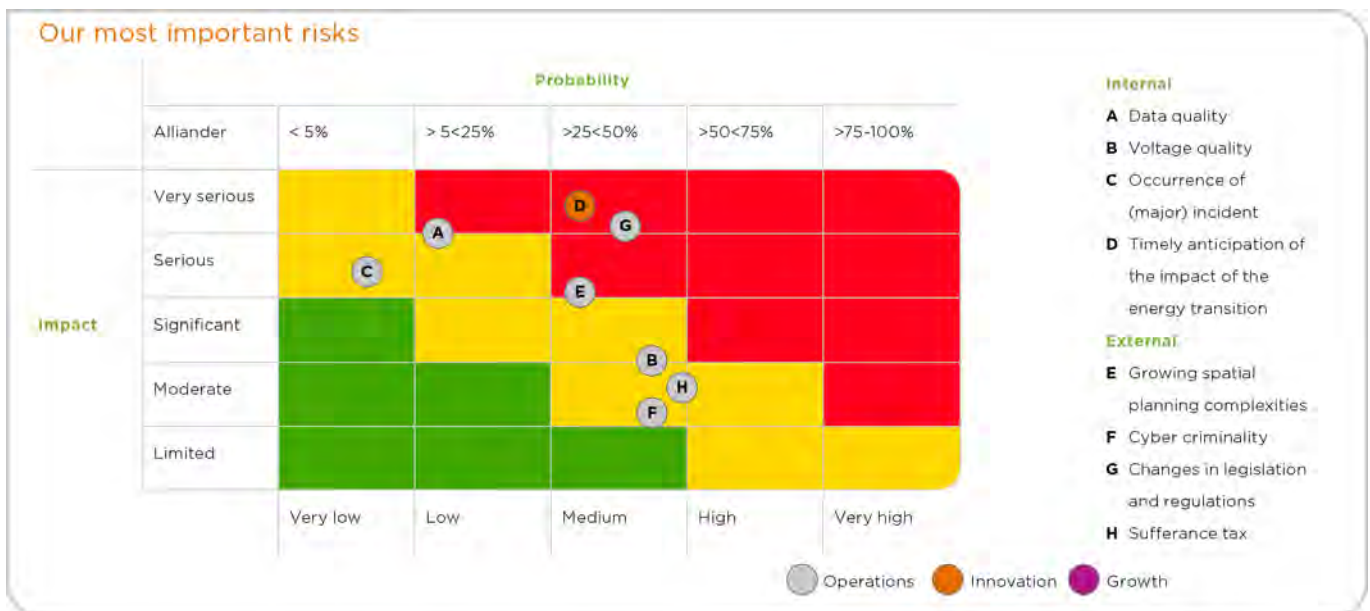
Risk management

Risk management forms an integral part of our 'control and accountability' procedures. Risks concern uncertainties that could affect the realisation of our strategy and objectives. While they are inherent in business operations, they must be managed responsibly in order to create confidence and peace of mind among our customers, employees, shareholders and other stakeholders. This helps Alliander to be transparent, reliable and predictable. The primary goals of our risk acceptance policy are to safeguard the continuity of our electricity and gas distribution networks, ensure safe working practices, and comply with laws and regulations. Identifying, assessing and managing risks helps the entire organisation to achieve the set objectives, deal with uncertainties and act with integrity in a controlled and resilient manner. The most important risks are discussed every quarter with the Audit Committee and the Supervisory Board.

Our most important risks

We monitor the risks throughout the year and consistently take mitigating action wherever required. We make a distinction between the internal risks we run as a result of our own actions, and external risks that stem from the world around us. Our most important risks are determined by their potential impact and probability of occurrence.

Apart from jeopardising our operational objectives, risks can also have a financial impact. We apply bandwidths for this purpose (measured over a five-year horizon): risks above € 50 million are severe to extremely severe, risks under € 25 million are moderate to limited.

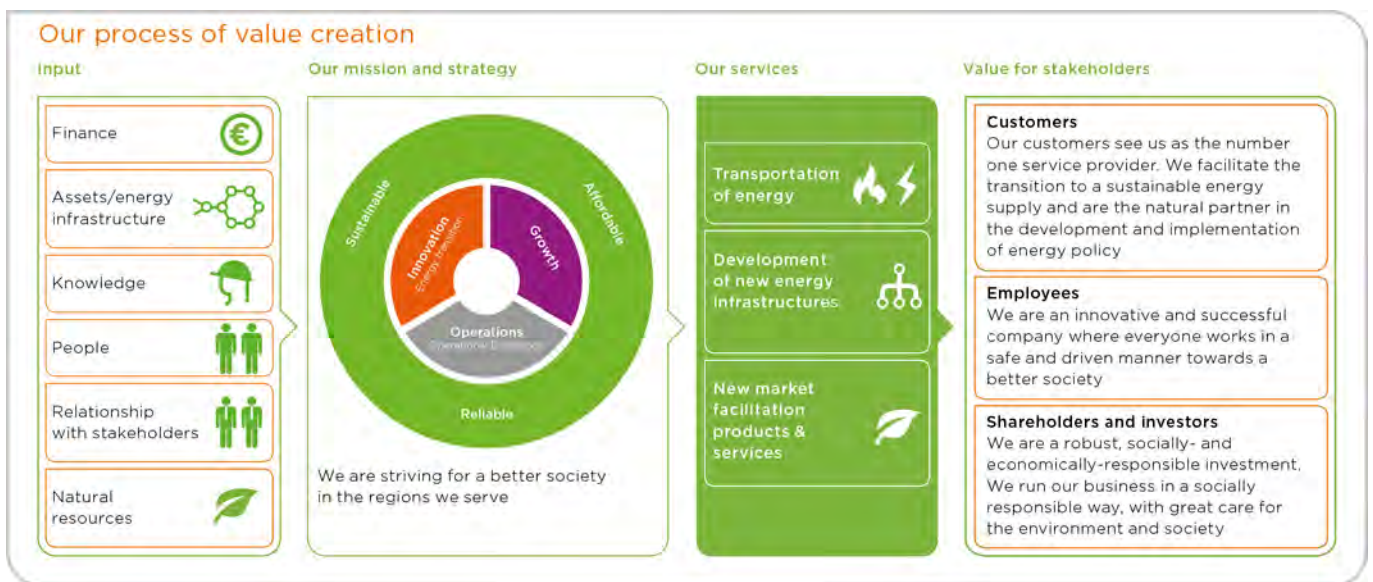


For a detailed description of the risks, the development of the risks and the mitigating measures we took, see Notes to risk chapter, which is an integral part of this report. You can read more about the possible impact of risks on our strategic objectives in [the stakeholder chapters](#) in this annual report. Though we explored opportunities to build scale in 2014, no concrete initiatives were taken (or associated risks run) in this connection. Financial risks, including our credit risk, are explained in [Note 34](#) to the financial statements.

You can read more about the explicit role of risk management in our organisation's control and decision making mechanisms in the Corporate Governance chapter and at alliander.com.

Value creation for stakeholders

The aim of our strategic choices is to create value for our stakeholders, a process which is based on careful and balanced decision-making. In our three stakeholder chapters, we deal with the realised value in greater depth.





Our results in
2014

Our story in 2014



Safety and reliability of supply. Further investments in sustainability. More efficient business processes. In 2014, we made strategic choices on operations, innovation and growth. Choices to create value for our customers, employees and shareholders.

Our customers rely on energy being available at all times. Fortunately, in our country this is almost always the case. With an availability of 99.99%, we are among the most reliable energy networks in the world. And we want to keep it that way in the future, even with increased local renewable energy generation. By constructing smart networks, we are increasingly able to manage and control flexible energy flows in the network. We are also initiating new activities to address future challenges, such as electric transport and sustainable area development.

Results on strategic pillars

In 2014, we made further progress on our three strategic pillars: operations, innovation and growth.

Operations

The essence of our work is to ensure an uninterrupted energy supply. It is what our customers want. Our energy supply reliability in 2014 was extremely good, but we were confronted with several exceptional incidents. These included two large-scale outages in Apeldoorn, which left over 1,500 customers without gas for days. Water and mud got into gas mains at two separate places after both a gas pipe and a water pipe broke at the same location. We repaired the damage as promptly as possible and, acting in dialogue and collaboration with the municipality, emergency services and residents, took every possible measure to minimise the inconvenience. We not only opened a neighbourhood information point for residents but, as it was winter, we provided heaters and blankets. Clearly, lessons must be learned from these large-scale outages, particularly as a similar incident occurred shortly after the New Year. These interruptions are costly for society and cause considerable inconvenience. To prevent recurrence, investigations are currently underway to determine where structural improvements can be made.

Alongside a reliable energy supply, customers need good services at affordable prices. By standardising our work, improving our cooperation and harnessing technology, we can create more comfort and convenience for our customers. They must receive our assistance quickly and effectively, and have a say in the timing of our work. In 2014, we continued programmes aimed at enhancing the efficiency of our business processes and structurally reducing costs. To underpin these efforts, we pooled our expertise in teams and centralised our work at strategic locations. These steps involved drastic changes within our organisation. The resulting relocations and the introduction of alternative working practices had a major impact on our employees.

In 2014, we invested substantially in the further improvement of our operational efficiency, thus laying a solid basis for operational management. Daily meetings keep the teams on top of their work and make it easier for them to plan ahead. However, these complex processes take time. Therefore, more attention will be devoted to these aspects in 2015 on our key activities in order to raise quality for your customers.

Innovation

Smart solutions are required to address the current climate and energy challenges. Hence our substantial investments in 2014 in such innovations as network automation and the construction of a telecom network. We set up test beds where we experimented extensively with new technologies and smart grids. And we also completed a smart meter pilot. Based on the expertise we gained, from 2015 we will start offering smart meters to our customers on a larger scale. In addition, we are experimenting and learning in new markets, such as the charging infrastructure for electric cars, the efficient utilisation of residual industrial heating and remote-controlled public lighting.

Growth

Major investments in such areas as the digitisation of the energy supply require sufficient scale and financial agility. The larger the number of customers covered by investments, the better we can control the costs per customer. In the reporting year, we teamed up with Eneco and Stedin to jointly invest in technology that will facilitate smart meter communication in more than half of the Netherlands. In 2014, we also explored opportunities to increase our scale in order to keep energy bills affordable in the longer term as well. As there is currently insufficient support among our shareholders for growth in Germany, we have agreed to initially focus on co-operation and consolidation in the Dutch energy sector. Together with network operator Enexis we are exploring whether we can exchange parts of our networks in the Eindhoven and Zuidoost-Brabant (Endinet) regions with those of Enexis in Friesland and the Noordoostpolder.

Going forward to a new future

Housing, working and transport are on the verge of major change. Residential and business premises are set to become sustainable to the extent that they will produce more energy than they consume. Digital and flexible working will be the order of the day, and we will travel from A to B in electric self-driving cars. Sounds futuristic? Perhaps, but it is a lot closer than many people think. In fact, the technology already exists.

Rapid advances on various fronts are making sustainable energy solutions increasingly accessible to a wider public in the Netherlands. By the end of 2014, there were already more than 46,000 electric/hybrid cars on Dutch roads, a number that was originally not envisaged before the end of 2015. The trend towards solar energy, which started in 2012 and 2013, also gathered pace in 2014. Finally, the accelerating adoption of heat pumps in new-build projects is another development that will bring about fundamental changes in the demand for energy. This adds to the dynamics in our energy networks.

To prepare ourselves for the upcoming energy revolution, innovation was a key focus in the past year. Managing the unpredictability of the energy transition is our biggest challenge. Alliander is looking closely at new market trends and models. Our duty to society is to facilitate that transition in a forward-looking manner, both with and for all our stakeholders. This calls for a flexible network company that can respond adequately to new demands and opportunities. It is vital that we retain our ability to meet the wishes of society, while assisting the transition to a flexible and sustainable energy system.

In 2014, Alliander spent more than € 700 million on the reinforcement, modernisation and maintenance of our networks. We achieved operating profit of € 323 million. Thanks to our solid financial position, we can continue investing in the networks.

Strengthening our organisation

To underline the ongoing focus on our network management role, Ingrid Thijssen joined our Management Board in 2014. We are aware of the crucial task that we, as a network company, play in society. Together with our employees, we can manage and channel the changes in the market with enthusiasm and professionalism. Our employees are our most important asset. Their commitment and expertise are vital in enabling Alliander to operate, grow and prosper, both now and in the future. Together we will continue to pursue our two key challenges in 2015: trouble-free access to energy and a responsible approach to the changes in the energy system. We will maintain our strategic course, full of energy.

Peter Molengraaf
Ingrid Thijssen
Mark van Lieshout



Alliander Management Board









From left to right: Ingrid Thijssen, Mark van Lieshout, Peter Molengraaf

Objectives & results





Safety

Objectives 2014	Results 2014	Objectives 2015	Strategic objectives	Main risks
 <p>LTIF (lost time injury frequency) A decrease in the number of accidents leading to absenteeism, so that the LTIF is 2.4 or lower.</p>	<p>17 accidents leading to absenteeism occurred, resulting in an LTIF of</p> <p>1.5</p>	An LTIF of 2.2 or lower.	An LTIF of 2.0 from 2017.	Occurrence of (major) incident
 <p>Safety culture We strive for a score of at least 3.0 on the safety ladder in the safety culture measurement.</p>	<p>The definite outcomes of the safety culture measurement are not yet available. The baseline measurement score is 1.8, as measured by KIWA</p>	The score on the safety ladder is 3.0 or higher.	We strive for a safety culture within the organisation, subject to the agreed safety parameters and with a focus on attitude and behaviour.	




Customers

Objectives 2014	Results 2014	Objectives 2015	Strategic objectives	Main risks
 <p>Customer satisfaction¹ Customer satisfaction in consumer and business markets continues to outperform a benchmark of Dutch network operators.</p>	<p>Consumer market</p> <p>104% against benchmark</p> <p>Business market</p> <p>97% against benchmark</p>	Customer satisfaction in consumer and business markets continues to outperform a benchmark of Dutch network operators.	Customer satisfaction in consumer and business markets continues to outperform a benchmark of Dutch network operators.	Occurrence of (major) incident Data quality Cyber security Suffrance tax Timely anticipation of the impact of the energy transition
 <p>Electricity outage duration² Maintain low outage duration. The objective is a maximum of 22 minutes.</p>	<p>19.9</p>	Maintain low outage duration. The objective for 2015 is 22 minutes.	The outage duration remains 22 minutes at maximum in the coming years.	
 <p>Number of postcode areas with more than five interruptions¹ Reduce the number of postcode areas with more than five interruptions to a maximum of 18.</p>	<p>10</p>	The number of postcode areas with more than five interruptions is a maximum of 17.	The number of postcode areas with more than five interruptions is a maximum of 15 in 2017.	Voltage quality Data quality
 <p>Progress on 25 most important projects¹ Our aim is to complete 90% of the most important projects.</p>	<p>78%</p>	In 2015, we again aim to complete 90% of the most important projects before the year-end.		Growing spatial planning complexities Occurrence of (major) incident
 <p>Customers with insight into energy saving potential^{1, 3} Realise electricity savings of 6.4% at customers with smart meters who take part in an energy saving pilot.</p>	<p>7.4%</p>	Specific objective for 2014.	Assist with energy saving (realisation of national energy saving objective).	Timely anticipation of the impact of the energy transition Cyber security
 <p>Digitisation programmes¹ Our aim is to achieve the (technical) realisation of 90% of the most important digitisation programmes in 2014.</p>	<p>61%</p>	In 2015, our aim remains the (technical) realisation of 90% of the most important digitisation programmes.		Timely anticipation of the impact of the energy transition Cyber security

Employees

Objectives 2014	Results 2014	Objectives 2015	Strategic objectives	Main risks
 <p>Employee survey score Score of at least 73 in the Great Place to Work employee survey.</p>	67	In 2015, we aim for a score of 75 in the Great Place to Work employee survey.	Be a top-class employer: an innovative and successful company where we develop future-oriented knowledge and competences.	All internal risks. Responsible management of these risks creates confidence and peace of mind among employees.
 <p>Employee absenteeism Maximum absenteeism percentage of 4.0%.</p>	3.8 %	Maximum absenteeism percentage of 3.9%.	The maximum absenteeism percentage is 4.0% in the coming years.	
 <p>Women in leadership positions At least 22% of all leadership positions are filled by women.</p>	23.7 %	At least 23% of all leadership positions are filled by women.	At least 27% of all leadership positions are filled by women by 2020.	
 <p>People at a distance from the labour market Offer a job to 90 people at a distance from the labour market.</p>	93	Offer a job to 100 people at a distance from the labour market.	In 2020, together with our suppliers, we will help more than 100 people at a distance from the labour market into work.	

Shareholders and investors

Objectives 2014	Results 2014	Objectives 2015	Strategic objectives	Main risks
 <p>Retention of solid rating Maintain solid A rating profile.</p>	S&P: AA-/A-1+/stable outlook Moody's: Aa3/P-1/stable outlook	Maintain solid A rating profile.	Maintain solid A rating profile. Continuously outperform the sector in terms of costs and operational excellence. Solid results compatible with the regulated permitted return.	Market risk, credit risk, liquidity risk, commodity price risk, currency risk, interest rate risk and tax risk.
 <p>FFO / net debt Objective: > 20%</p>	34 %	FFO / net debt Objective: > 20%		
<p>Interest cover Objective: > 3.5</p>	7.6	Interest cover Objective: > 3.5		
<p>Net debt / (net debt + net equity) Objective: < 60%</p>	34 %	Net debt / (net debt + net equity) Objective: < 60%		
<p>Solvency Objective: > 30%</p>	54 %	Solvency Objective: > 30%		
 <p>Socially responsible procurement⁴ At least 60% of our procurement is socially responsible.</p>	60.9 %	At least 65% of our procurement is socially responsible.	In 2020, arrangements are in place with at least 80% of our suppliers about the CO ₂ performance of their own operations and the products or services to be delivered to Alliander. 40% of our materials are purchased on the basis of circular procurement.	
 <p>CO₂ emissions from business operations⁵ The CO₂ emissions are a maximum of 941 ktonnes.</p>	921 kton	CO ₂ emissions are a maximum of 831 ktonnes (according to a sector-wide calculation method).	We strive for climate-neutral operations in 2023.	

- Concerns Liander.
- The outage duration in 2014 of 19.9 minutes is based on low, medium and high voltage. The 2014 objective is based on low and medium voltage. The result for 2014, including only low and medium voltage, is 19.5 minutes.
- The original energy-saving objective was 3.4% and related to gas and electricity. This was adjusted on the basis of a reliable measurement method.
- Concerns Alliander excluding Endinet.
- The objective for CO₂ emissions for 2014 and 2015 was recalculated according to a sector-wide calculation method.

Customers

For most customers, energy is invisible; they just want it to work. But consumers and businesses are increasingly becoming aware of its value. They are not only keen to save energy but to use more renewable energy.



What customers consider important

The stakeholder dialogue revealed that customers found the following themes relevant in 2014: the energy transition, regulation and tariffs, innovation, reliability of supply, customer satisfaction, smart grids, energy saving and services, energy storage. These themes are extensively discussed in this chapter.

Objectives and results

Customer satisfaction

Objective:

higher than a benchmark of Dutch network operators

Result:

Consumers **104%** Business **97%**

Annual electricity outage duration (in minutes)

Objective:

22.0 min.

Result:

19.9 min.

Completion of most important digitisation programmes

Objective:

90%

Result:

61%

Energy saving at customers with a smart meter

Objective:

6.4%

Result:

7.4%

Postcode areas with more than five interruptions per year

Objective:

18 maximum

Result:

10

Completion of most important projects

Objective:

90%

Result:

78%

Smarter with energy together



Marjoland is the Netherlands' largest rose nursery, spanning no less than 20 hectares. Clearly, a reliable energy supply is essential for this family business.

"Light and a constant temperature are important to help our roses grow. We create the ideal conditions in our greenhouses. As a rose grower in the Netherlands, you simply cannot do without energy, particularly in the winter when we need both heat and light in the greenhouses. With its interruption-free network, Liander makes sure our roses never suffer from the cold. But energy is also a large cost component for roses, so we use it as wisely as possible. We take advantage of the residual heating from installations and the released CO₂ for harvesting the roses. Liander also helps us with smart energy solutions."

Johan van den Nouweland, Operations Director at Marjoland

Alliander gives over three million customers access to energy and is readying its networks for the sustainable energy system of the future. Wherever possible, we seek to tailor our services to the needs of our customers, with a central focus on reliability, comfort and convenience. Consumers want quick and effective assistance. They also want energy-saving solutions, with a clear indication of the costs and benefits. And for our business customers, energy is crucial for operational continuity. Moreover, they want to realise their sustainability ambitions in a cost-effective way, together with the network operator. Alongside the end users of energy, such as consumers and business customers, a growing number of market parties are turning to us for services and support. Examples are renewable energy cooperatives in our regions and independent providers of energy services. They need access to reliable real time data (within the permitted limits of the law) and a flexible energy network for more sustainable energy generation.

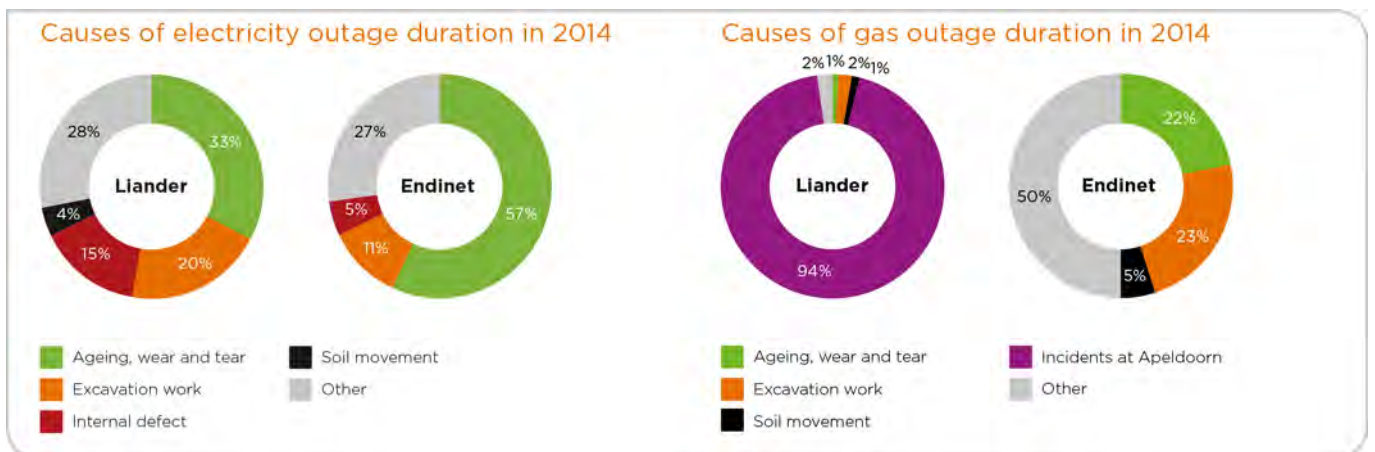
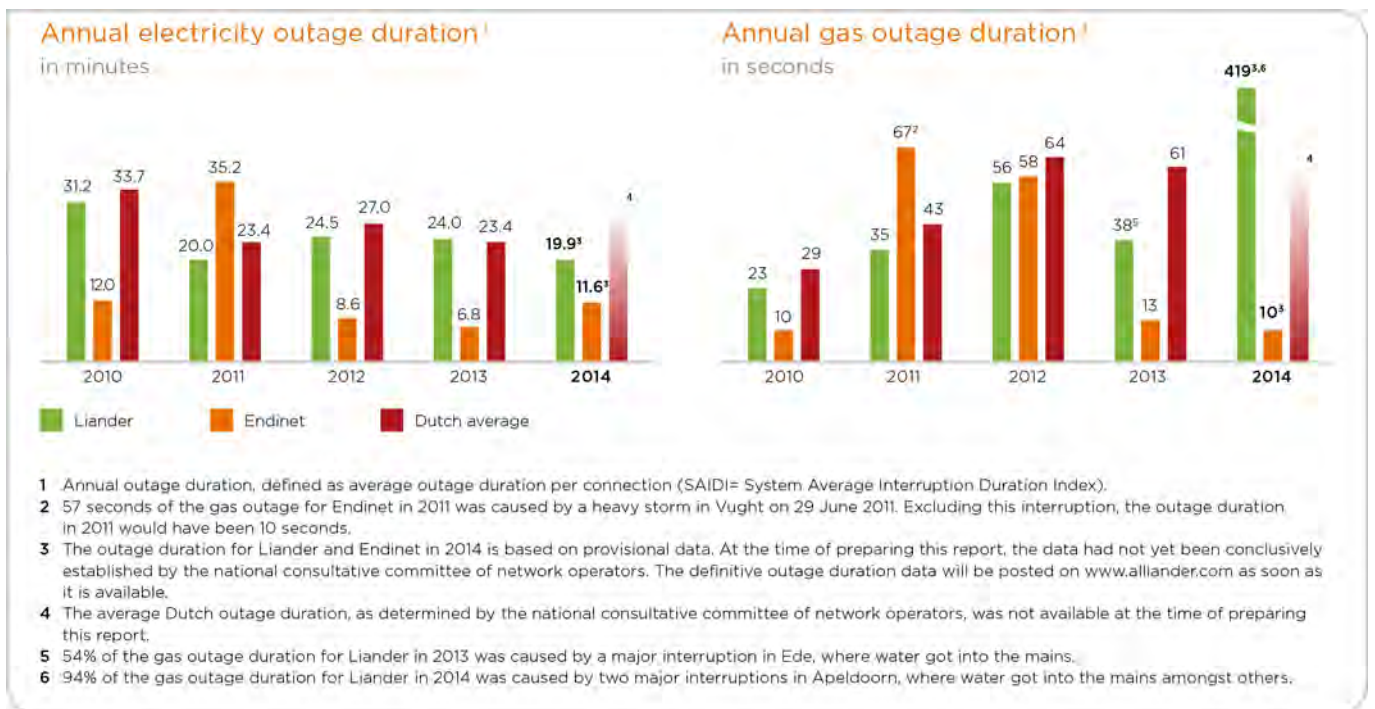
Our direct contacts with consumers and small business users have changed. Since the introduction of the statutory supplier model in 2013, the energy supplier has become the first point of contact for questions about the energy bill and meter readings. Network operators are still the first point of contact for questions about connections, interruptions or energy network maintenance. In 2014, we noticed that it was not yet always clear who was responsible for answering customer questions. Network operators and energy suppliers are currently in consultation to resolve this issue. Meanwhile, Liander has improved the information on [its website](#).

For the energy of today

Every day, we work to provide a reliable and safe energy supply for customers. In this way, we contribute to a world where everyone can live, work and travel. In 2014, we improved the reliability of the network. We also helped customers gain better insight into their energy bill and enabled locally generated energy to be fed into the network at many locations.

Reliability of supply and safety

Our energy networks are among the most reliable in the world, with an availability of 99.99%. Nevertheless, we were confronted in 2014 with interruptions, which left Liander and Endinet customers without electricity for 19.9 minutes on average. This was four minutes less than in 2013. In 2014, two major interruptions left more than 1,500 customers in Apeldoorn without gas for days. Liander restored the gas supply and set up a local information point for residents. Due to these interruptions, the gas outage duration for Liander customers rose to 6.9 minutes in 2014. The number of postcode areas where customers were affected more than five times declined from 15 to 10 areas.



Investments in the energy network

Interruptions are extremely disruptive for our customers and costly for society. So we do our utmost to prevent the occurrence of faults. In 2014, we spent more than € 700 million on maintenance, replacement and construction of energy infrastructure.

We modernised our cables and pipes at various locations, partly through the replacement of steel connection pipes and grey cast-iron connections. As these pipes and connections are sensitive to soil movements and subsidences, their replacement reduces the risk of faults and major incidents. Thanks to innovative renovation technologies, network renovation can be carried out rapidly, with excavation work causing minimal disruption to customers. We also started a programme to coordinate and organise all voltage and power control activities and thus reduce the risk of voltage-related problems, including 'voltage dips'. Voltage problems are a key risk for us, as they can be a serious inconvenience for our customers. To keep interruptions to a minimum, the data on our networks must be reliable. A new method has been developed at sector level which enables us to verify the accuracy of the data on our operating assets, such as location, type and construction date.

In 2014, 78% of the most important investment projects were entirely completed. Lengthy procedures and deferred decision-making delayed the initiation or completion of several investment projects during the year. This work has been rescheduled in consultation with the parties involved. Finding suitable routes and locations for our infrastructure is becoming increasingly complex. To address this problem and prevent delays, we are intensifying our contacts with relevant stakeholders and have engaged staff to deal with the specific planning aspects related to managing our networks.

"As an alderman of the municipality of Leiden my responsibilities include the city's economy and ensuring good accessibility. I therefore consult regularly with my Liander account manager. Whenever necessary, we contact each other and sort things out. The reconstruction of the Breestraat is one example. Liander's flexibility prevented planning problems and the subsequent cooperation went smoothly."

Robert Strijk, alderman of the municipality of Leiden

Investigating incidents

Several serious accidents exposed the dangers of gas and electricity in 2014. In September, a gas explosion in an apartment in Diemen caused two fatalities. This incident affected us deeply and we are investigating the cause. Employees of Liander safely restored the gas supply and helped residents return to their homes.

The safety of customers, employees and the surrounding area is our first priority. Besides offering after care to all parties concerned, we thoroughly investigate all incidents in order to avoid recurrences. These investigations are carried out together with other relevant organisations such as the Association of Energy Network Operators in the Netherlands (Netbeheer Nederland) and regulators such as State Supervision of Mines (SodM), the Dutch Safety Board and the Inspectorate of the Ministry of Social Affairs and Employment. Acting on behalf of Netbeheer Nederland, the Kiwa certification organisation is investigating the cause and handling of all gas incidents. And the Public Prosecutions Department also conducted an inquiry into the incident in Diemen.

Network operation tariffs

The network operators are tasked with providing energy transportation, connection, and metering services. As this is an exclusive statutory task, the tariffs are regulated and the Netherlands Authority for Consumers & Markets (ACM) sets the permitted tariff level for the individual network operators.

The network operation tariffs were reduced in 2014, which our customers noticed in their energy bills. The reduction at Liander could have been substantially larger had the tariffs not included sharply higher regional surcharge tax. Alliander is of the opinion that the surcharge tax levied on its infrastructure should be abolished, as it results in a generic increase in tariffs for all customers. New legislation to end surcharge tax has been under preparation for some time now.

Energy saving

A growing group of customers are keen to save energy, both to keep their rising housing costs in check and to contribute to a cleaner environment.

In 2014, network operators helped customers gain greater insight into their energy saving opportunities. We offer municipalities and housing associations specific (online) services for this purpose. With 'open data' we stimulate the development of handy energy apps that are combined with the smart meter. We seek alliances with innovative partners and take part in civil society initiatives. In 2014, we also assisted customers who wanted to start up local sustainable energy initiatives in their neighbourhood, district or town.

Energy savings with the smart meter

The smart meter helps customers get more control over their energy consumption and discover where they can make savings. In 2014, Liander customers with a smart meter participated in an energy saving pilot. Using handy apps and energy management systems, they achieved average electricity savings of 7.4%. The smart meter also offers wider social benefits: network operators are better able to monitor, protect and control their networks and can read meters at a distance. This supports our efforts to anticipate and prepare for the energy transition in time. Another advantage is that network operators can rapidly see any unusual changes in energy consumption, which helps to combat fraud and rapidly locate interruptions.

Last year, Liander and Endinet installed smart meters at more than 200,000 customers and the meter has to be offered to all our customers by 2020. A smart meter roll-out programme has been developed in consultation with the other network operators and central government. This large-scale operation is due to get under way in 2015. Alliander expects to offer about 360,000 meters to customers in 2015, and estimates its annual investment in smart meters until 2020 at € 60 to 100 million. Together with network operator Stedin, we added the 'circular' criterion to our European smart meter tender. This requires tendering suppliers to develop a circular prototype, in which products and materials are or can be reused.

Energy transition

Our customers are the driving force behind the energy transition. More and more people are producing their own solar energy, driving electric cars and making their home or business more energy-efficient. To facilitate these new dynamics, Alliander is investing in flexible, reliable electricity networks that deliver maximum value to customers.

Compared to 2013, the number of feed-in installations surged by 52% last year. Thanks to government incentives and affordable technology, more and more households are embracing sustainable energy alternatives such as solar panels or heat pumps. The accelerating trend towards local, sustainable energy generation and feed-in makes it more difficult for network operators to match supply and demand in their networks. The peaks and valleys in demand lead to more frequent voltage fluctuations.

Smart networks

To get a tighter grip on the energy flows, we are adding ICT and sensors to our existing energy networks. Thanks to smart grids, we can continue guaranteeing reliability of supply, even as we move towards a future with more decentralised generation. An added advantage is that smart grids help to transport energy more efficiently and reduce network losses.

Smart grids are more reliable than traditional networks. Faults can be traced and fixed faster. This will be to the benefit of our customers as it reduces the duration of outages. However, the ongoing digitisation of our energy networks also gives rise to new risks, such as the hacking of our operating assets. We are constantly assessing cyber criminality risks and take additional measures where necessary.

Value creation through smart grids



Alliander's value

- Operating assets
- Fewer interruptions
- Less maintenance



Alliander's costs

- Intelligent network investment programme
- Sufferance tax



Customer value

- Reliability of energy supply
- Quality of life
- Less CO₂

Our networks in the regions

Each region has its own energy requirements and energy generation potential. Hence our regional approach. The activities scheduled for the year under review were outlined in the Alliander Year Plan 2014 and the most important results achieved so far in the regions can be found in this annual report.

Regional data

Province	Electricity		Gas		Electricity and gas	Smart meters	Electricity outage duration ¹
	Expansion	Replacement	Expansion	Replacement	Total	placements	minutes per year
Noord-Holland¹							
realisation	50.4	22	6.5	21.6	100.5	53,400	17.4
year plan	56.4	29.6	8.7	22	116.7	56,000	
Amsterdam							
realisation	27	12	2.2	33.4	74.6	25,500	33.8
year plan	31.5	14.3	2.3	33.4	81.5	31,000	
Zuid-Holland²							
realisation	19.5	18.2	4.2	14.9	56.8	22,100	14.8
year plan	18.2	17.6	2.7	23.4	61.9	18,000	
Gelderland							
realisation	45.2	16.1	10.2	20.3	91.8	59,100	17.7
year plan	44	17.1	13.7	31.5	106.3	70,000	
Flevoland							
realisation	2.3	0.8	0.2	0.3	3.6	6,800	17.6
year plan	6.2	0.7	0.4	0.3	7.6	10,000	
Friesland							
realisation	15.4	5.7	0.5	0.8	22.4	20,100	19.2
year plan	23	5.1	0.3	1.4	29.8	22,000	
Noord-Brabant							
realisation	2.4	4.7	1	9.9	18	19,100	11.6
year plan	2.4	5.8	3.4	10.8	22.4	19,000	

1. In general, the outage duration of gas is negligible, with the exceptions being the impact of the gas interruptions in Apeldoorn in 2014.
2. The Alliander year plan 2014 erroneously mentioned planned investments in Haarlem under Zuid-Holland. This has been recalculated.

In 2014, we worked hard to modernise our energy networks. We carried out large-scale gas main replacements at various locations, including Amsterdam, Gelderland and Zuid-Holland, and upgraded electricity networks in anticipation of the increasing volume of electricity transportation.

Not all activities planned for 2014 were carried out. Our expansion investments in housing and business estates fell short of our forecast. Demand for large connections to the electricity network was also lower than expected. The cable operations for our large 20kV projects in Friesland started later, so that some of the proposed investments were postponed to 2015. The construction of new substations in Noord-Holland and the expansion of stations in Flevoland also made slower progress than foreseen in the year plan.

In consultation with municipalities and other relevant parties, the implementation of several replacement projects was shifted from 2014 to 2015. Thorough risk inspections also led to the conclusion that fewer gas connections needed to be replaced than originally foreseen.

Noord-Holland

In Noord-Holland, we took part in various sustainable initiatives in 2014. We were involved in a collective solar energy project in Haarlem and the energy network in Middenmeer for a possible expansion of wind energy. On the island of Texel, we offered residents smart energy meters and added metering points to the gas network to support improved monitoring of energy flows. We are thus helping Texel in its ambition to be entirely energy self-sufficient by 2020. The energy supply for new data centres around Schiphol-Rijk was also a focus in 2014.

Amsterdam

Maintaining the infrastructure in Amsterdam is a complex challenge due to the limited space and busy traffic routes. In consultation with the municipality, we meticulously planned our work in 2014 to minimise any disruption. The substations in Bijlmer Noord and Zorgvlied were upgraded to provide customers in Amsterdam-Zuidoost and the Amsterdam Zuidas area with sufficient power 24/7. Work was started in 2014 and will continue in 2015. Obsolete networks and tens of kilometres of grey cast-iron pipes and outdated connections were also replaced.

Zuid-Holland

In 2014, Liander expanded electricity networks in Zuid-Holland to accommodate several small residential projects in Noordwijk, Voorhout, Sassenheim and Alphen aan den Rijn. We also upgraded the networks ahead of the expected increase in electricity demand. In consultation with the Rijnland Water Board, which is currently widening and reinforcing dykes on a large scale, we moved various sections of the gas and electricity networks. And network renovations and adjustments were carried out in Zuid-Holland to reduce the risk of local interruptions.

Flevoland

In 2014, various residential projects were realised in Flevoland. Liander invested € 3.6 million in the expansion of the energy network in this region. Amongst other things, we worked on the residential energy supply in Lelystad, Almere, Zeewolde and Dronten. We also provided input for the renewable initiatives of the province and municipalities. Wind farms play a key role in Flevoland's ambition to be an energy-neutral province by 2020.

Gelderland

In 2014, Liander invested nearly € 100 million to prepare the energy network in Gelderland for the future. Test bed experiments at various locations (including Lochem) enabled us to gain experience with new developments such as intelligent energy networks and energy storage in electric cars. In addition, more than 4,500 homes with renewable energy sources, such as heat pumps or thermal storage, were connected to the energy network in Apeldoorn, Harderwijk and Veenendaal.

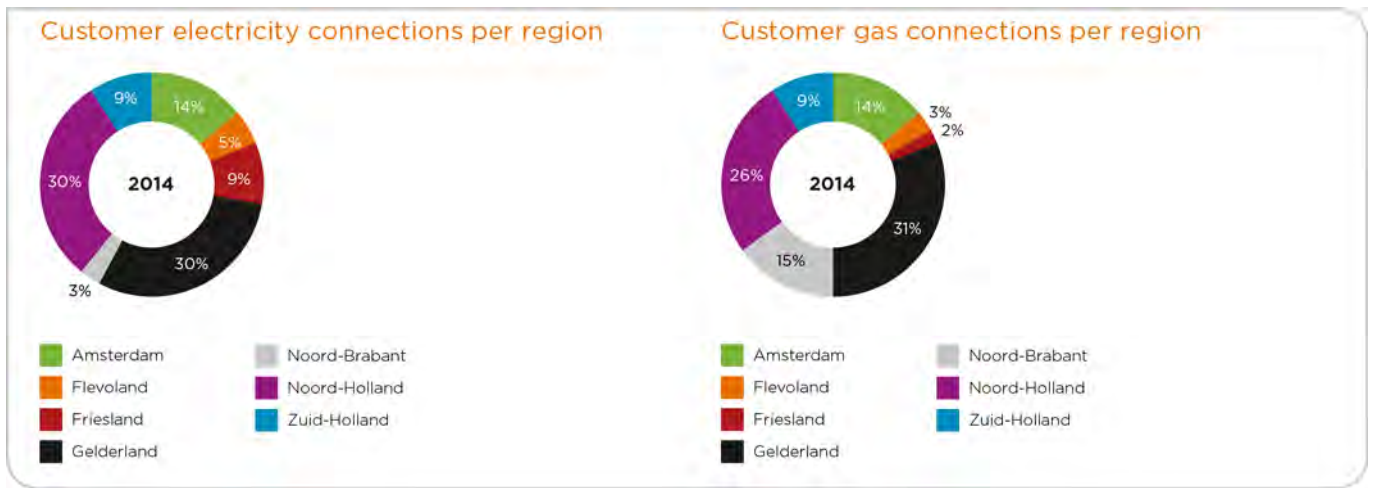
Friesland

There is a clear shift in the nature of Liander's work in Friesland. Fewer traditional new connections are being realised, while demand for support with renewable initiatives is growing. In 2014, Liander constructed smart grids and was involved in plans for solar parks on e.g. the island of Ameland. The existing infrastructure was adjusted in various places in the region. Network bottlenecks were resolved and connections were laid to public roads, such as the 'Centrale As', a new motorway between Dokkum and Nijenga.

Noord-Brabant

In 2014, Endinet continued its activities to improve the quality of the gas network. Gas mains and stations were replaced. Preparations started in Tongelre (Eindhoven) for the replacement of the main electricity distribution station. We are also preparing for increased feed-in of local energy. As part of the Airey Project in Eindhoven, calculations were made to determine the impact on our network. In addition, we monitored and assessed developments at two companies that feed green gas into our network, with a particular focus on assuring the quality of the gas.

More information about our work in the regions can be found on the website of the annual report.



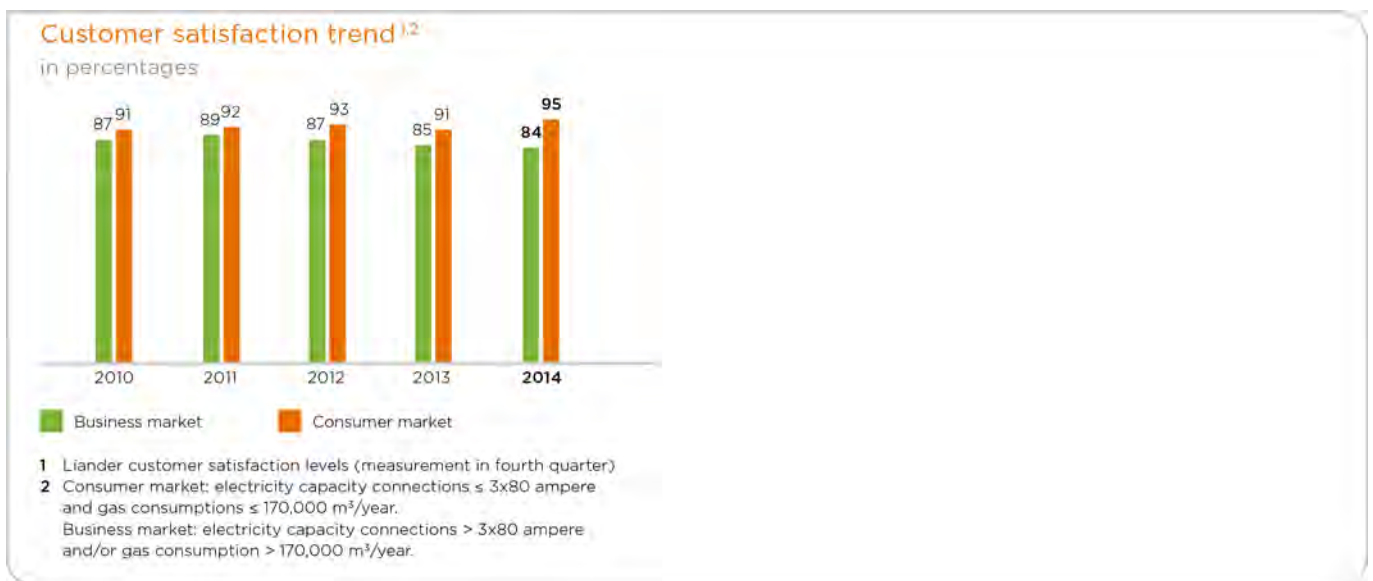
Customer satisfaction

The satisfaction of our customers depends largely on the reliability of the energy supply. And of course they also expect a service that is up to the standards of our times.

Customer satisfaction surveys among Dutch network operators showed a peak in the consumer market in the first half of 2014 and a fall in the second half. The consumer satisfaction ratings for Liander and Endinet remained stable throughout the year.

The business customers of Liander were less satisfied about maintenance and interruptions in 2014. Municipalities also mentioned communications, a dedicated contact and keeping commitments as points for improvement.

Customers value convenience, comfort and speed of service. We are therefore continuing to upgrade our online services. In 2014, Liander launched a [revamped website](#) for consumers and business customers to improve its digital services.



For the energy of tomorrow

In the future, you can set domestic appliances to switch on automatically when the wind is blowing. Solar energy will be stored in electric car batteries and factories will adjust production to the supply and price of energy. The energy transition will blur the traditional dividing line between energy producers and consumers. Consumers are poised to become 'prosumers'. Our challenge in this changing world is to keep our services up to standard and to continue ensuring a reliable, affordable and uninterrupted energy supply. We support our customers with a service package tailored to their energy needs. As a neutral and reliable player, Alliander offers added value through its extensive knowledge of the local customers and regions it serves.

Going forward, we foresee growing electricity consumption alongside a strong increase in decentralised energy generation. We continuously assess the required and available network capacity and the rapidly evolving energy transition is compelling Alliander to accelerate its preparations for the future. Test bed experiments are being carried out with innovative equipment, technologies, processes and ICT. Wherever possible, this is done with partners and cooperative groups. These efforts are vital in order to adapt our networks to new trends in a timely fashion. With the acquired knowledge, we are also better able to meet the current energy demands of society.

Innovation in energy networks

Technological advances are constantly creating novel ways to improve and renew our services. Together with producers, ICT developers and civil society organisations, we are working on innovative solutions to create a sustainable energy landscape. 'Open data' is one area where we are making an active contribution. Since 2013, we give public access to metering data from our network that cannot be traced back to individual customers. These data can help innovators, such as app developers, to build applications that provide our customers with greater convenience, comfort and insight.

Liander, together with network operator Stedin, is also engaged in a data traffic project for the joint construction and management of a mobile communication network. This CDMA network will enable us to read smart meters and communicate with existing and future installations in the energy network. The cooperation with Stedin creates scale benefits and hence lowers costs for our customers. As we process privacy-sensitive and confidential data, the protection of that data is obviously a top priority. Data management and cyber security therefore continued to receive our undiminished attention in 2014, through our co-operation with the Dutch central government's National Cyber Security Center among others. Alliander also cofounded ENCS, a knowledge center that is helping to optimise the protection of vital infrastructures, such as energy networks, against cyber crime. A security management system is in place to assess risks and test the security of our network. As a further precaution, our network is divided into zones to prevent and contain viruses or outside attacks from intruders.

Energy storage

Above all, the energy system of the future must be flexible. The availability and price of energy will become more dependent on unpredictable sources such as solar and wind. Energy storage is one solution to absorb peaks and valleys of supply and we are therefore closely watching developments in this field. By entering into partnerships and starting up trial projects, we are better able to estimate the impact on our work and explore the added value for customers. Alongside technology, our focus is on the added value of energy storage for customers; because it is our customers who largely determine the pace of progress.

In 2014, we completed a study into the added value of batteries in consumer settings. The outcome was that most customers are not yet interested in domestic energy storage, as long as there is no cap on the amount of energy they can feed into the network. We also learned that customers like to make their own energy choices and want to be able to switch suppliers easily. Using practical control systems they can, for instance, choose to store surplus energy for later use or share it with neighbours. Alliander stimulates innovative solutions by building knowledge with customers, universities and businesses.

Facilitating access to new markets

Over 100 years ago citizens, municipalities and entrepreneurs jointly pioneered public access to what was then considered a brand-new form of energy: electricity. This bold step laid the foundations for the solid energy network that serves the Netherlands to the present day. Recent years have given birth to a similar society-wide movement. Citizens and businesses are launching sustainability initiatives and creating new energy markets. Electric mobility, self-generation, energy saving, energy storage and the sharing of self-generated energy illustrate the drive towards a new energy future. Society is undergoing a rapid transformation, and so is our energy system. The pace of change is exponential, and our company must adapt accordingly.

Going forward, our task as a network company is to ensure that our customers continue to enjoy 'anytime, anywhere' energy and freedom of choice. Alliander is not a passive by-stander, but an active participant, co-creator and initiator of new markets. In our start-ups, we combine our own expertise with that of policy-makers and specialists to accelerate developments, while continuing to keep a close eye on the reliability, affordability and sustainability of the energy supply. It is our ambition to facilitate the energy transition by opening up new sustainable markets to customers and giving these markets an open character. After all, the more open the market, the more choice our customers have – and the more level the playing field for suppliers.

Alliander sees new markets and initiatives emerging in various areas. These include energy awareness and usage, sustainable energy generation and transportation, sustainable mobility, 'internet of energy', flexibility, storage and conversion and integration of new markets. In 2014, we invested in:

- the placement and operation of user-friendly charging points for electric transport;
- sustainable area development through e.g. the construction of heating networks;
- sustainable housing through e.g. the installation of insulation and solar panels;
- the development of new technology to coordinate energy demand (for buildings and equipment) and the supply of renewable energy;
- cooperation with various parties for the development of innovative energy and home automation systems;
- cooperation with partners such as Amsterdam Smart City, European Innovation Partnership and local authorities to move local initiatives forward.

Employees

Every day, more than 7,000 employees are hard at work ensuring an uninterrupted energy supply. What they do really matters. Alliander offers a working environment where employees can be themselves, work effectively together and share their knowledge, expertise and creativity.



What employees consider important

The stakeholder dialogue revealed that employees considered the themes of Health & Safety and Training & Development to be relevant in 2014. These themes are extensively discussed in this chapter.

Objectives and results

Lost Time Injury Frequency (LTIF)

Average number of accidents leading to absenteeism per one million hours worked

Objective:

 2.4 or lower

Result:

 1.5

Employee absenteeism

Objective:

 4.0%

Result:

 3.8%

Employee survey score

Objective:

 73%

Result:

 67%

Safety ladder score

Objective:

 3.0

Result:

 1.8 (baseline measurement)

Women in leadership positions

Objective:

 22.0%

Result:

 23.7%

People at a distance from the labour market

Objective:

 90

Result:

 93

A company with a mission



Jos Brakband, business developer at Alliander, is working on our new telecom network.

“If you look around, you see digital applications everywhere. For Alliander, too, digitisation has become an absolute must in the energy transition. So alongside our electricity and gas networks, we’re working hard on our telecom network which offers us more insight into such aspects as energy consumption, energy feed-in and interruptions. Wherever possible, we’re also working with other network operators or public organisations. That makes my work at Alliander fascinating. Thanks to new technology, the way we work and work together is changing radically.”

Employees of Alliander have a clear objective: contribute to an uninterrupted energy supply for today and tomorrow. In this context, efficiency was a key factor in 2014.

Organisation under development

New trends and technologies are transforming society at a rapid pace. To respond smoothly to these changes, we need to adjust our processes and competences. As a result, our organisation is undergoing a continuous process of change. The roles of employees are evolving and some jobs are disappearing due to efficiency improvements. Other important trends in the coming years are the ageing population and the fact that employees will work longer before retiring. To find out what competences we need in our organisation, we have made a strategic staff plan.

In 2014, several programmes were implemented to achieve further structural efficiency gains in our operational processes. Work was centralised and expertise was concentrated in teams. These programmes had a major impact on employees because certain roles were eliminated. Consequently, 85 colleagues were made redundant.

We are an organisation in motion. This is evident from the increase in the number of employees in our career centre in 2014. There is a mismatch between the competences of our employees and the speed with which we need to respond to developments in the energy world. In 2014, about 200 colleagues received support in finding a new job or a suitable job prospect.

“This has been an eventful year. We worked hard on leadership, operational management and efficiency. Many employees were confronted with changes in their work, working environment and contacts. We had to part ways with some of them. But even we as the employee representatives felt the changes were necessary for Alliander, and above all for Alliander’s customers. In our capacity as employee representatives we seek the best possible balance between corporate and individual interests, while ensuring that ‘we as a company are doing the right things in the right order and at the right time’.”

Christel Hofman, chairwoman of the Central Works Council of Alliander

Composition of our organisation in 2014

Alliander employs many technicians and ICT staff, but also experts in change management and finance. Based on each individual's expertise, every employee contributes to the achievement of the organisation's common objectives.

In 2014, we had 7,170 permanent employees. The percentage of women in leadership positions increased to 23.7% during the year. At least one female candidate is put forward for external vacancies for leadership positions. Though energy technology is among the top 10 male professions, we are committed to staff diversity and are clear that diversity leads to better decision-making and cooperation. Moreover, we think that colleagues must be able to be themselves irrespective of their gender, age, (cultural) background, religion, nationality and sexual orientation.

For the work of today



Given the rapid pace of transformation in the energy world, we need to ask a lot of employees in terms of innovation, efficiency, knowledge and expertise. At the same time, a focus on safe working practices remains essential. Safety and efficiency were key priorities in our operations in 2014.

Health & Safety

Working with gas and electricity carries inherent health and safety risks for our employees, contractors and customers. A safe working environment therefore has the highest priority within Alliander. We aim to ensure that everyone both arrives and returns home safely. Despite this, employees were involved in 17 accidents in 2014, resulting in their temporary absence from work.

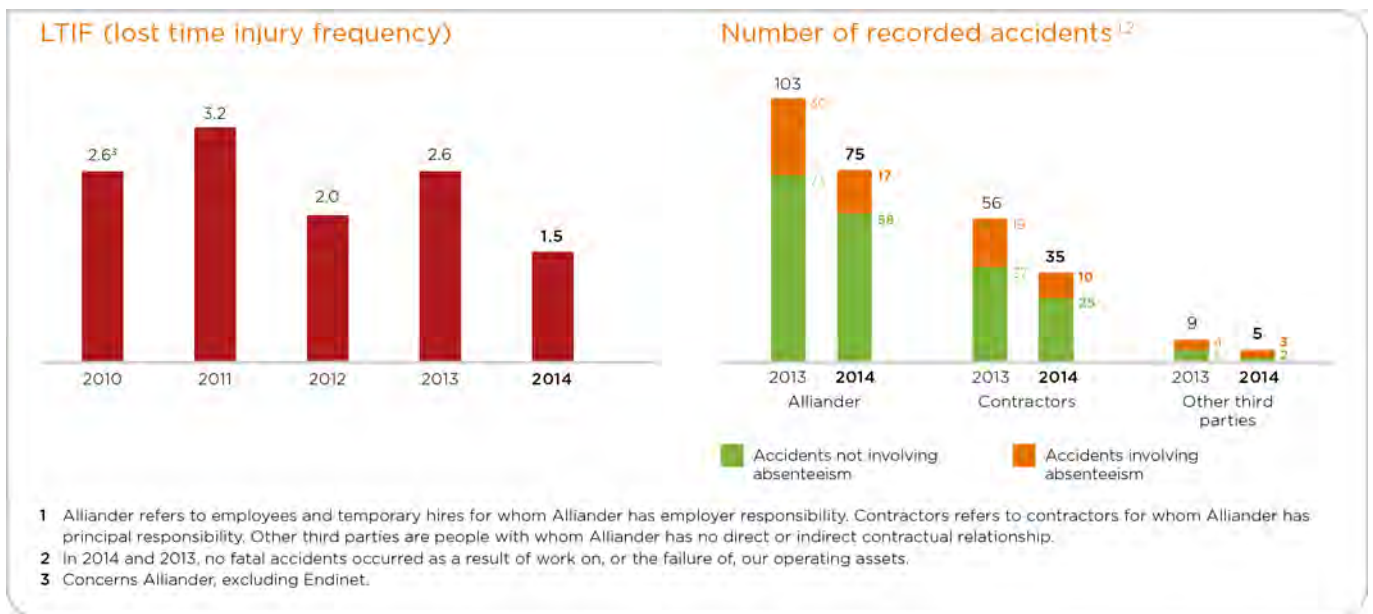
Alliander invests in safety and safe working practices. Training programmes, equipment, safety audits, investigations and awareness campaigns are all part of these efforts. The aim is to develop intrinsically safe working practices and to offer employees maximum protection against possible dangers in the performance of our tasks. In addition, a policy is in place to learn on a structural basis from any incidents that occur.

Value creation through safety awareness

<p>€ ↑ Alliander's value</p> <ul style="list-style-type: none"> • Less absenteeism • Reputation of the company 	<p>€ ↓ Alliander's costs</p> <ul style="list-style-type: none"> • Training • Certifications and audits • Communication • Equipment 	<p>👤 Employee's value</p> <ul style="list-style-type: none"> • Safety • Health • Employee satisfaction
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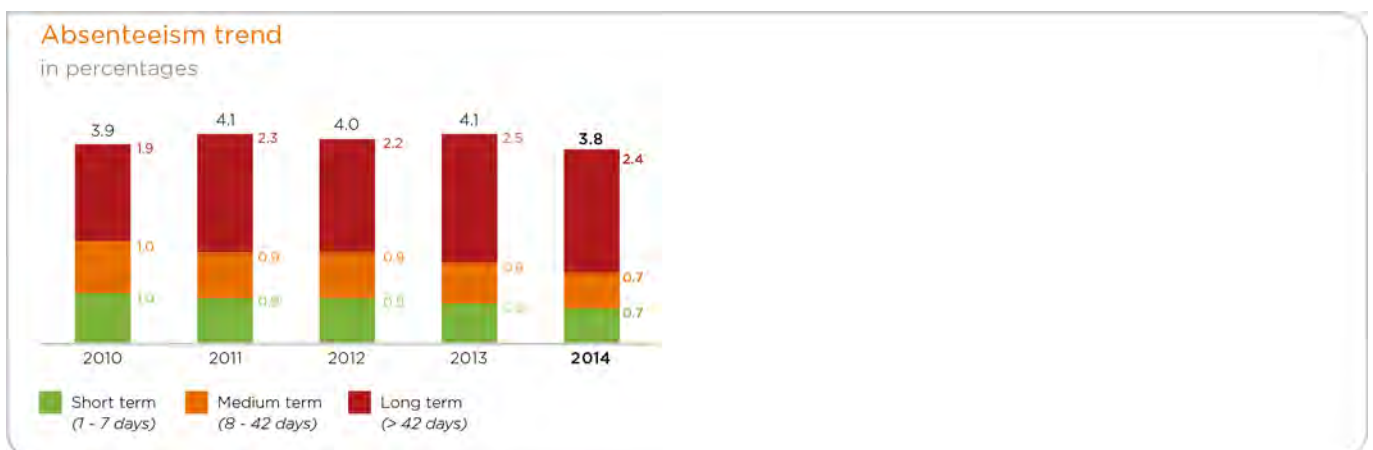
Safe working practices must remain a continuing focus for our organisation. This is evident from the baseline safety measurement that the KIWA certification institute performed at Alliander in 2014. Our score on the safety ladder was 1.8, while our objective is a score of 3.0 or higher. The definite outcomes of the safety culture measurement are not yet available. Recommendations for improving our score mainly related to leadership, engagement, discipline and the safety culture. Alongside the more than 1,500 safety training courses that were attended last year, we entered into a dialogue with employees, supervisors and managers about safety issues and concerns. We discussed practical situations and the impact of incidents on employees, supervisors and managers. Personal experiences regularly serve as input for improvement proposals and help employees identify risky situations faster. We also encourage employees, supervisors and managers to raise issues with one another and to inform each other of incidents or near incidents. In addition, we drew up a list of 'Life Saving Rules' together with employees in 2014. These are the most important safety rules that employees must adhere to during operations. Safety themes are also highlighted online via photo and video reports.

We measure our safety performance via the Lost Time Injury Frequency (LTIF), which expresses employee safety as the number of accidents leading to absenteeism relative to the number of hours worked. In 2014, the LTIF fell to 1.5 (2013: 2.6). Incidents leading to absenteeism are mainly caused by carelessness, such as falling, tripping and stumbling.



Absenteeism

The employee absenteeism rate in 2014 worked out at 3.8% (2013: 4.1%). We help employees to return to work as quickly as possible and encourage an active lifestyle. In 2014, we launched a programme to promote healthy living and a good work-life balance. With special diet and training schedules, colleagues are challenged to work on their health during a 12-week programme. Stopping smoking is another focus.



Appreciation

According to our Great Place to Work employee survey, staff feel that if you work for Alliander, you do a job that really matters. Our employees are proud of their work and the organisation. They also think they can be themselves and have sufficient opportunities for personal development. Nevertheless, we achieved a lower score in the 2014 employee satisfaction survey than we hoped. Our score of 67 (target 73) was not sufficient to earn us a place on the 'Best Workplaces' list. According to our employees, the management is still not sufficiently able to indicate where the organisation or department is heading and how it intends to get there. Employees also see room for improvement on such aspects as 'doing what you say' and 'doing what you promise'. The outcomes of the survey were discussed in the teams to create openness regarding various insights and to jointly make the next step.

Alongside the Great Place To Work survey, Alliander conducted an extensive identity monitor last year. Over 2,000 employees took part in this monitor. The outcomes confirmed that Alliander employees are proud of their work, with Alliander scoring 8.1 on pride compared to 6.7 for our sector peers. However, employees do feel there is a lack of cohesion within the organisation. Alliander scored 6.1 on collective strength, which was below the sector peer average of 6.5. The Management Board will use these outcomes as input for the further development of the company's mission and vision in 2015.

For the careers of tomorrow



Alliander is continuing to build an organisation where employees trust the professionalism and skill of their colleagues, enjoy what they do and take pride in their work. We encourage all employees – irrespective of the stage of their life or career – to think about their longer-term employability and facilitate 'anytime, anywhere' learning. These efforts are not confined to the careers of our own employees: we also give people at a distance from the labour market a better chance to find a job via the Step2Work programme.

Training and development

Every year, employees of Alliander agree on learning & development targets together with their manager. This encourages them to continue working on their professional skills, personal development and new career opportunities. In 2014, Alliander invested 3% of its wage bill in employee training. A special online programme centering on the theme of 'changing' was launched for managers in 2014. During this programme managers joined their colleagues in learning all about change processes, both in theoretical and practical terms, and in the specific Alliander context. With this development, we support 'anytime, anywhere' learning in keeping with the New Way of Working.

Operational management and leadership play a key role in our efforts to improve our results. Alliander assists managers with operational management and teaches them, amongst other things, how to give employees scope within the set frameworks to carry out their work while continually improving their performance.

Cooperation with training institutions

By working closely with training institutions and our sector peers, we make young people enthusiastic for our business and increase our chances of recruiting skilled staff. We work with institutions at all levels – from pre-vocational secondary education (VMBO) to university – to bring the theory and practice of energy technology closer together. In 2014, we teamed up with regional vocational and special needs schools to develop new apprenticeship-based learning programmes. In addition, we helped develop a part-time electrical engineering course aimed at young people with a technical degree or other training background.

The New Way of Working

As a modern employer, Alliander is keen to embrace new ways of working. Together and flexible: this means that employees make their own decisions – within the parameters set with their manager and the team – about where and when they work in order to carry out their individual or collective tasks in the best possible way. Our new way of working is in line with the broader trend towards making our daily lives more sustainable, digital and efficient.

To help them make the right choices, employees are supported with practical advice, modern IT devices and specially adapted, modern work locations. To promote sustainable commuting and reduce our CO₂ footprint, we also challenge employees to opt for a more sustainable transport mix.

Our building in Duiven is undergoing a sustainable makeover and being adapted to the principles of the New Way of Working. It will offer a working environment that stimulates our employees to meet up and work together. There are rooms for consultation, working in silence and collaborating on assignments. Moreover, the new building will also meet all its own energy requirements and even supply energy to its immediate surroundings.

Step2Work: an opportunity for everyone

Our Step2Work programme gives people at a distance from the labour market a better chance of finding a job. In 2014, we offered apprenticeship-based jobs to a total of 93 youngsters, over-50s and people with a physical impairment.

Ahead of the Participation Act (Participatiewet), which took effect on 1 January 2015, we have in recent years increasingly carried out this programme in cooperation with municipalities, training organisations, the UWV Employee Insurance Agency, our suppliers and other companies both within and outside the energy sector. The Step2Work programme has a wider social value that extends well beyond purely financial cost-benefit considerations: with Step2Work we show that we are truly connected with society.

Shareholders and investors

Our shareholders and investors recognise the importance of having a financially sound network company with a proactive stance when it comes to facilitating the energy transition. We are witnessing greater attention to sustainability performance on the part of businesses.



What shareholders and investors find important

Our dialogue with stakeholders revealed that shareholders and investors recognised the following themes as relevant in 2014: energy consumption and CO₂ emissions, transparency, electricity generation and overall business performance. These are the themes that are covered in this part of the report.

Objectives and results

Rating

Objective:

To retain a solid A rating profile

Result:

 S&P AA-/A-1+/stable outlook
Moody's Aa3/P-1/stable outlook

Socially responsible procurement (SRP)

Objective:

 60% minimum

Resultaat:

 60.9%

CO₂ emissions from Alliander operations

Objective:

 941 kt max.

Resultaat:

 921 kt

FFO/Net debt

Objective:

 >20%

Result:

 34%

Interest cover ratio

Objective:

>3.5

Result:

7.6

Net debt (net debt + equity)

Objective:

<60%

Result:

34%

Solvency ratio

Objective:

>30%

Result:

54%

A sound investment

Alliander enjoys a healthy financial position. This is largely the result of the determined pursuit of our financial policy, which is essentially geared to maintaining a solid A rating profile.

Continuing to pursue this financial policy enables us to be and to remain a financially sound investment, for both bondholders and shareholders.

Network investment

Our financial position allows us to invest in our networks, to be flexible and to grow the business. Alliander's task is to secure the safety and reliability of the electricity and gas distribution systems and to ensure that the networks have adequate capacity, both now and in the future. This means making both replacement investments and investments to expand our networks. The uncertainty surrounding the speed and extent of the energy transition does, however, make it difficult to arrive at a proper estimate of the desired network capacity in the future. On top of the network investments, we are also investing more in digitisation. Here the emphasis has more to do with ensuring better network control, using telemetry systems, than laying cables etc. We also keep a close watch on technological and market developments in the sector so that we can take timely action and, if necessary, adjust both the nature and scope of our capital programmes.

Sustainability strategy

We aim to be a company that recognises its corporate social responsibility. This involves making our operations as sustainable as possible. For instance, we aim to reduce our CO₂ footprint as far as possible and, where we do have CO₂ emissions, we aim to match them with green certificates (renewable energy certificates – RECs). In our efforts to reduce CO₂ emissions we work closely with our suppliers. An important task for Alliander is to facilitate the transition to a sustainable energy supply. A large part of our efforts on this front is concerned with modifying the existing networks to accommodate the feed-in of renewable energy from decentralised power generation systems. On top of that we have embarked on new activities, including the construction and operation of district heating networks and of charge points creating the necessary infrastructure for electric vehicles. Alliander also sees it as its task to encourage and to facilitate such sustainability-related activities. Our efforts in the field of sustainability show that an investment in Alliander is also a socially responsible investment.

Importance of sustainability performance

Further evidence of the growing importance of sustainability performance with respect to raising finance is provided by the growing popularity of green bonds, used by companies to generate funding for investments with specific sustainability objectives. Our shareholders recognise the importance of a financially sound network company with a proactive stance when it comes to facilitating the energy transition and fully back our ambitions in this field. They also make use of Alliander's expertise in setting up initiatives for local renewable energy projects.

The level of attention that shareholders and investors are paying to the sustainability performance of businesses is growing. For several years now, Alliander's performance in this field has been assessed by CSR rating agencies which, in the same way as credit rating agencies, produce a rating for Alliander. They are commissioned to do this by investors with a sustainability focus that use the CSR rating as a selection criterion. On 14 Juli 2014, German Sustainability rating agency Oekom upgraded the rating of Alliander from B to B+. According to Oekom, Alliander belongs to the industry leaders in the utilities sector with this rating.

This part of the report is devoted to Alliander's financial position and performance in 2014, the company's financial policy and its relations with financial stakeholders. We also report on our more important sustainability achievements in greater detail.

Financial results in 2014

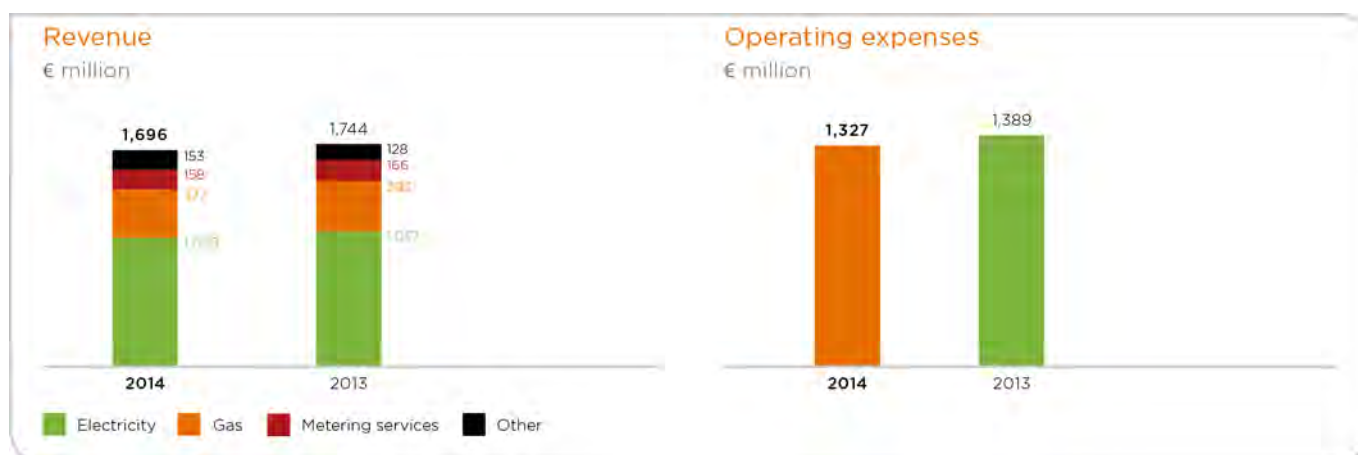
The profit after tax for 2014 was €323 million (2013: €288 million). Excluding incidental items and fair value movements, net profit amounted to €240 million (2013: €287 million). Revenue generated by the regulated activities in 2014 was lower than in the preceding year, owing to the lower tariffs under the 2014 tariff decision taken by the Netherlands Authority for Consumers & Markets (ACM). The effect of this reduction in income on the bottom line was offset to some extent by a book profit before tax of €40 million on the sale of shares (25.4% interest) in N.V. KEMA to DNV GL Group (€45 million after tax). The release of the provision relating to a change in the valuation of the credit default swap (CDS) also had an impact on the reported profit before tax amounting to €80 million (€60 million after tax).

The cash flow from operating activities was down by €60 million, at €623 million in 2014. The solvency ratio improved in 2014 to 53.6% and the net debt position fell by €101 million. Total assets increased by €125 million, mainly reflecting network investments.

Income statement for 2014

Revenue

Revenue in 2014 was down by €48 million (3%) compared with the preceding year, at €1,696 million, chiefly as a consequence of the net effect of lower regulated tariffs for energy transportation and connection charges (€65 million) for both electricity and gas and lower regulated tariffs for metering services (€8 million) and an increase in other regulated revenue (€13 million), largely accounted for by an increase in the contributions received for maintenance work. Around 93% of our revenue is generated by these regulated activities. Alliander also has non-regulated activities, including the activities of Liandon and activities in various growth markets, where revenue was up (€11 million).



Other income

Other income in 2014 came in at €141 million (2013: €102 million). This increase is largely accounted for by the book profit on the disposal of the KEMA shares (€40 million). Apart from this, other income mainly relates to the amortisation of connection contributions from our customers (€63 million) and sundry other income, including compensation received for losses, rents and book profits on the sale of assets (€38 million).

Operating expenses

Total operating expenses in 2014 amounted to €1,327 million (2013: €1,389 million) and can be specified as follows:

Analysis of operating expenses

€ million	2014	2013
Purchase costs and costs of subcontracted work	406	416
Employee benefit expenses	583	560
Other operating expenses	159	247
Depreciation and impairment of property, plant and equipment	354	357
Less: Own work capitalised	-175	-191
Total	1,327	1,389

The €10 million drop in the purchase costs and costs of subcontracted work compared with the preceding year is largely due to the introduction of the supplier model, which resulted in a reduction in Nuon CCC costs of €17 million, and to lower purchase costs (€15 million) partly as a consequence of planned work not being completed. Set against this there was an increase in the cost of network losses (€12 million) due to incidental gains in the preceding year and higher tariffs meant an increase of €10 million in transmission charges passed on by TenneT.

The increase in employee benefit expenses for permanent staff and external personnel of €23 million compared with the preceding year was mainly due to an increase in external staff (€11 million) in the IT service unit in particular. Among the factors behind the increase in employee benefit expenses for our own staff (€12 million) are CLA pay rises and an increase in social security charges and a number of employee benefit provisions, including for long-service benefits.

The other operating expenses were down by €88 million. This drop is almost entirely attributable to the release of the CDS provision, amounting to €80 million, which is explained below. There was also a reduction of €22 million due to cost savings because of the reduction in project work and reduced organisation costs. Set against this was an increase in costs due to increased surferance tax charges (€21 million), with various new municipal authorities levying these taxes in 2014, and higher charges because of the increase in tariffs.

Notes on the CDS

The credit default swap derivative instrument has been part of two cross-border lease contracts since 2005. The CDS is a product which insures the credit risk on an underlying portfolio made up of almost 100 reference bonds. The instrument has a maturity of 10 years (maturing at the end of June 2015) and 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. The greater part of this provision related to the fair value of the CDS (which was negative), with an additional provision up to the amount of the maximum risk. This approach was maintained up to year-end 2013, based on the expected risks.

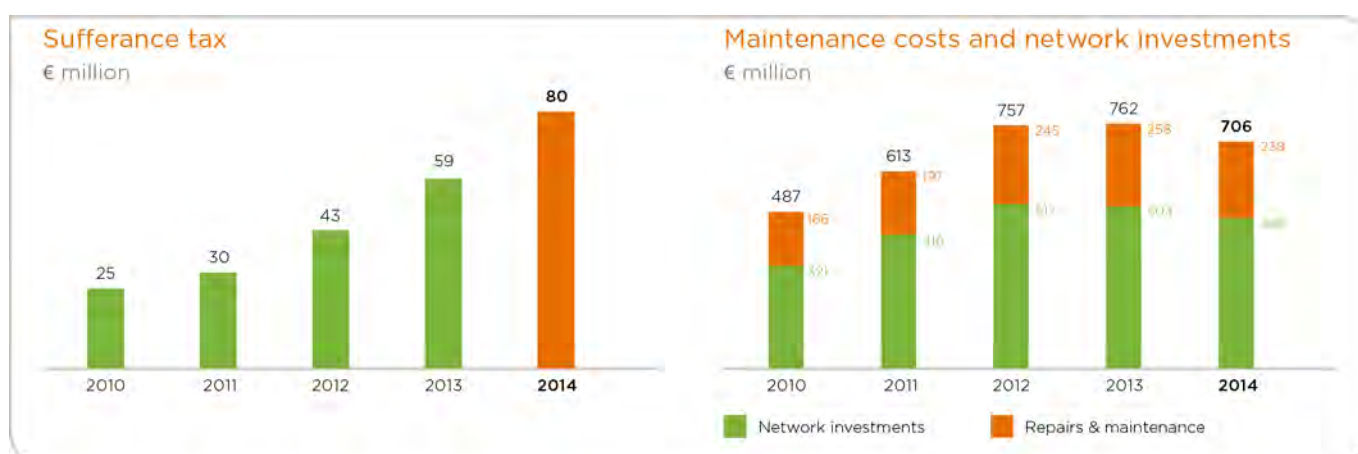
In December 2014, the fair value of the CDS was \$18 million (€15 million) and the additional provision amounted to \$153 million (€127 million) on the basis of this methodology. As at year-end 2014, the remaining term to maturity of the CDS was only six months. The management of Alliander concluded 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 to such an extent that it is not expected that the maximum risk relating to the entire product will materialize. 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. The fair value based on an external party valuation amounted in December 2014 to \$18 million (€15 million). 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 net effect is that with respect to the CDS in 2014 a release of €80 million has been recognised and set against the operating expenses.

Sufferance taxes and maintenance costs and network investments

The amount of sufferance tax increased by €21 million compared with 2013, to €80 million. The trend in the amount of sufferance tax payable over the past five years is illustrated in the graph below. The increase is largely due to the fact that more and more municipal authorities are levying sufferance tax charges on Liander. The fact that there is what is referred to as an objectively observable regional difference means that these sufferance tax charges are included in the data used for regulation purposes and, for the most part, with a time lag reflected in the tariffs applicable to all customers in the area served by Liander.

The second graph below shows the expenditure on maintenance costs and network investments, including meters, over the past five years. Whereas total expenditure in 2010 was €487 million, the figure in 2014 had grown to €706 million, an increase of more than 40%. This increase is partly accounted for by upgrading and expansion of networks, replacement programmes such as that for grey cast iron gas mains, developments relating to digitisation and the roll-out of smart meters.

Expenditure was, however, down by €56 million (7%) on the 2013 level. In particular, repair & maintenance costs were €20 million lower, partly because of a lower maintenance budget, but projects were also delayed. There was also lower capital expenditure on the electricity network (€16 million lower) and the gas network (€15 million lower). Spending was down on both customer-driven and technology-driven work. The level of investment in metering systems and telecoms remained on a par with the preceding year.



Operating expenses from a management perspective

A different approach to the analysis and control of costs, rather than from the point of view of an income statement based on cost analysis by category, is to look at the operating expenses, excluding incidental items, from a management perspective, classifying them as follows: purchase costs (including costs of network losses, TenneT transmission charges passed on and sufferance tax payments), process costs (including network maintenance costs and billing and payment collection costs), indirect costs (overhead/general administrative expenses) and depreciation/amortisation. This produces the following analysis of the operating expenses:

Analysis of operating expenses, excluding incidental items

€ million	2014	2013
Purchase costs	424	358
Process costs	335	370
Indirect costs	286	293
Depreciation	354	357
Total	1,399	1,378

It may be concluded from this analysis that the increase in overall operating expenses was largely due to a rise of €66 million in purchase costs, whereas process costs and indirect costs were in fact down by €35 million and €7 million, respectively. The increase in purchase costs is mainly attributable to the previously mentioned rise in the network loss costs, TenneT transmission charges, sufferance taxes and the cost of sales of the non-regulated activities. The lower process costs mainly result from implementing the new market model, which has had the effect of cutting Alliander's costs. Finally, depreciation/amortisation charges, at €354 million, were almost unchanged compared with the preceding year (€357 million).

Operating profit

The operating profit was up by €53 million compared with 2013, at €510 million. Excluding incidental items, however, the operating profit came in at €398 million, representing a drop of €70 million compared with 2013.

Finance income and expense

Finance income and expense in 2014 resulted in a net expense of €93 million (2013: €69 million). The increase of €24 million is largely explained by incidental items, including the exchange losses on the CDS in 2014 (€19 million) due to the movements in the dollar exchange rate and, in 2013, the finance income (€13 million) deriving from the amount recognised in respect of the KEMA put/call options. Eliminating these exceptionals, the net expense was in fact down by €8 million at €74 million (2013: €82 million).

Associates and joint ventures

The share in the results from associates and joint ventures after tax for 2014 was nil (2013: €2 million income).

Tax

The effective tax burden (the tax burden expressed as a percentage of the profit before tax excluding the results from associates and joint ventures after tax) in 2014 was 22.4% (2013:26.3%). The lower effective tax burden in 2014 compared with the standard rate (25.0%) is chiefly accounted for by the substantial-holding privilege connected with the disposal of the non-controlling interest in KEMA. The slightly higher effective tax burden in 2013 compared with the standard rate (25.0%) was mainly due to a minor adjustment relating to prior years.

Profit after tax

The profit after tax for 2014 came in at €323 million (2013: €288 million). Excluding incidental items and fair value movements, the 2014 profit after tax amounted to €240 million (2013: €287 million). The increase of €35 million is due to the release of the provision relating to the CDS and to the proceeds from the sale of the KEMA shares. These gains were partially eliminated by the effect of the reduced revenue due to lower tariffs on the regulated activities.



Incidental items

Alliander's results can be affected by incidental items and fair value movements. Alliander defines incidental items as items which in the management's opinion do not derive directly from the ordinary activities and/or whose nature and size are so significant that they must be considered separately to permit proper analysis of the underlying results. To qualify for recognition as incidental items, a lower limit of €10 million is in principle applied.

Net incidental items and fair value movements in 2014 combined to give a gain of €84 million after tax (2013: €1 million gain).

The following table contains an overview of the reported figures and the figures excluding incidental items and fair value movements.

Reported figures and figures excluding incidental items and fair value movements

€ million	Reported		Incidental items and fair value movements		Excluding incidental items and fair value movements	
	2014	2013	2014	2013	2014	2013
Revenue	1,696	1,744	-	-	1,696	1,744
Other income	141	102	40	-	101	102
Total purchase costs, costs of subcontracted work and operating expenses	-1,148	-1,223	72	-11	-1,220	-1,212
Depreciation and impairments	-354	-357	-	-	-354	-357
Own work capitalised	175	191	-	-	175	191
Operating profit (EBIT)	510	457	112	-11	398	468
Finance income/(expense)	-93	-69	-19	13	-74	-82
Result from associates and joint ventures	-	2	-	-	-	2
Profit before tax	417	390	93	2	324	388
Tax	-94	-102	-10	-1	-84	-101
Profit after tax	323	288	83	1	240	287

Other income

(2014: €40 million gain, 2013: nil)

Sale of interest in KEMA

The incidental item in 2014 included in other income relates to the disposal of the 25.4% interest in KEMA to DNV GL Group, including the settlement of the related put and call options. This transaction has been accounted for as follows:

€ million	2014
Disposal	80
Less: carrying amount interest	23
Gross book profit	57
Settlement options	17
Book profit before tax (other income)	40
Tax	5
Book profit after tax	45

The substantial-holding privilege is applicable to the gross book profit. On write-down of the options, the related deferred tax asset was released to income, producing a net book profit recognised on the sale of the interest in KEMA of €45 million.

Total purchase costs, costs of subcontracted work and operating expenses

2014: €72 million gain, 2013: €11 million loss)

The net gain is made up of an incidental gain and an incidental loss. The incidental gain of €80 million in relates to the CDS and concerns the release of the provision by €127 million less the change in the value of the derivative of €47 million.

The incidental loss in both 2014 (€8 million) and 2013 (€11 million) is connected with the costs of organisational changes.

Finance income and expense

(2014: €19 million loss, 2013: €13 million gain)

The incidental loss in 2014 is mainly connected with the items relating to the cross-border leases, including the revaluation recognised in respect of an investment relating to a particular cross-border lease and the movement in a related provision, totalling €17 million.

The incidental gain in 2013 relates primarily to the amount recognised in respect of the KEMA put and call options.

Tax

2014: €9 million gain, 2013: €1 million loss)

These amounts relate to the tax effect on the incidental items and fair value movements.

Cash flows

Shown below is a summary of the cash flow statement for 2014.

Consolidated cash flow statement

€ million	2014	2013
Cash flow from operating activities	623	683
Cash flow from investing activities	-410	-493
Cash flow from financing activities	-201	-135
Net cash flow	12	55

The cash flow from operating activities in 2014 amounted to €623 million (2013: €683 million). The decrease of €60 million compared with 2013 is largely accounted for by a fall in the operating profit, excluding incidental items and fair value movements (€70 million), partly as a consequence of reductions in the regulated tariffs.

The cash outflow from investing activities in 2014 amounted to €410 million, which is €83 million lower than in 2013. The reduced cash outflow overall is chiefly explained by the cash inflow from the sale of the interest in KEMA to DNV GL Group (€80 million) and the partial sale of CDMA Utilities to Eneco €4 million).

Investments in property, plant and equipment

€ million	2014	2013
Electricity regulated	243	247
Gas regulated	143	170
Metering devices	50	53
Buildings, ICT etc.	134	100
Total	570	570

The cash flow relating to investments in property, plant and equipment amounted to €570 million, the same as in 2013 (€570 million). The contributions towards capital projects received from third parties in 2014 amounted to €80 million, which, again, is almost the same as in the previous year (€82 million).

The cash flow from financing activities in 2014 amounted to €201 million negative (2013: €135 million negative). The negative cash flow is largely explained by the repayment of the EMTN loans (€276 million) and distribution of dividend (€125 million), with positive amounts in this cash flow coming from the Euro Commercial Paper (ECP) that was issued (€153 million) and receipts from short-term cash deposits (€75 million).

Free cash flow in 2014

The free cash flow in 2014 totalled €213 million, compared with an inward free cash flow in 2013 of €190 million. The increase of €23 million compared with 2013 is largely explained by the lower cash outflow from investing activities, negated to some extent by the reduced cash inflow from operating activities.

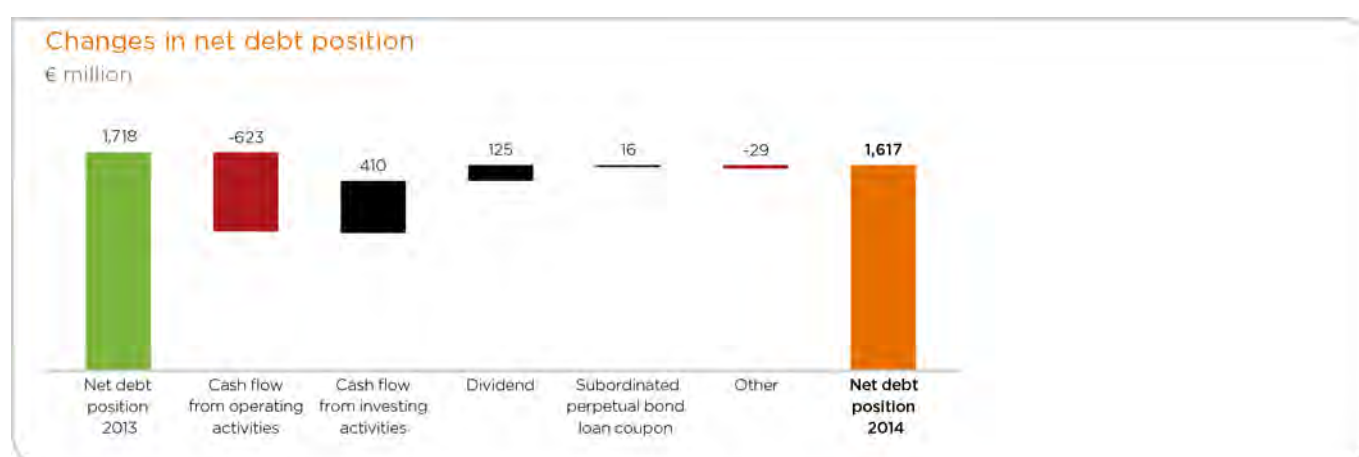
Free cash flow reconciliation

€ million	2014	2013
Cash flow from operating activities	623	683
Investments and divestments in non-current assets	-490	-575
Construction contributions received	80	82
Free cash flow	213	190

Financial position

Net interest-bearing debt

The reconciliation of the net debt position as at 31 December 2014 is shown below:



The net debt position as at 31 December 2014 amounted to €1,617 million (2013: €1,718 million). This is a decrease compared with the net debt position as at year-end 2013 of €101 million.

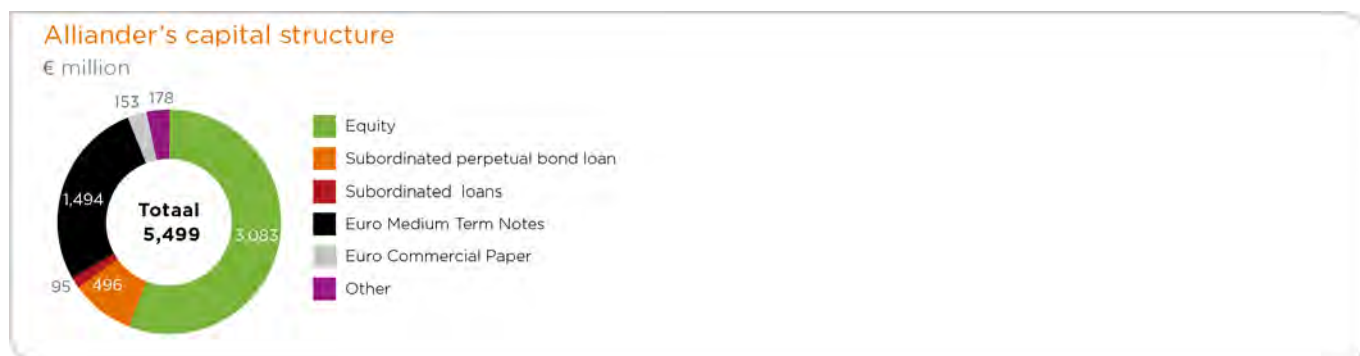
Net debt position reconciliation

€ million	31 December 2014	31 December 2013
Long-term interest-bearing debt	1,616	1,611
Short-term interest-bearing debt	159	284
Finance lease liabilities	145	127
Gross debt	1,920	2,022
Cash and cash equivalents	167	155
Non-current financial assets	-	136
Current financial assets	184	100
Investments held for lease obligations related to cross-border leases	200	161
Total cash and cash equivalents and investments	551	552
Net debt in accordance with the annual financial statements (IFRS)	1,369	1,470
50% of the subordinated perpetual bond loan	248	248
Net debt on the basis of Alliander's financial policy	1,617	1,718

The reduction in the net debt position is mainly accounted for by a free cash flow of €213 million, against which there were dividend payments (€125 million) and the coupon payment on the subordinated perpetual bond loan (€16 million).

Various instruments are used to finance the maintenance and expansion of the energy networks and other activities. For this finance, Alliander is dependent on its shareholders, institutional investors and banks. Alliander's creditworthiness is rated by rating agencies that publish their findings.

The capitalisation of Alliander as at year-end 2014 was made up as follows:



The capital structure reveals that Alliander's financing is more or less equally divided between equity and borrowed capital. The equity capital is provided by the shareholders and increases annually by the amount of the earnings retained. The shareholders receive a percentage of the net profit as dividend each year. Holders of the subordinated perpetual bond loan receive a fixed return on their investment out of the reported profit provided a dividend is declared. Alliander does not have access to finance by issuing new shares to private investors because private shareholdings in Dutch regional network companies are prohibited by law. To raise external finance, Alliander needs to turn to providers of borrowed capital. These are mainly institutional investors that buy debt instruments issued by Alliander. To meet its long-term finance requirements, Alliander has issued five bond loans that are quoted on the stock exchange, including a subordinated perpetual bond loan. The loans are listed on the Luxembourg Stock Exchange and NYSE Euronext Amsterdam. To meet its variable finance needs in the short term, Alliander regularly issues short term commercial paper. Additionally, Alliander has a contracted committed credit facility with a number of banks to provide a backup source of finance, should it not be possible to raise the necessary funds on the capital market or the money market.

Open dialogue

Alliander pursues an active policy of maintaining an open and constructive dialogue with shareholders, bondholders, financial institutions, credit rating agencies, analysts and the media. The aim is to provide all stakeholders with relevant financial and other information as accurately and promptly as possible, in reports, in press releases and in meetings as well as by other means.

Financial policy and long-term objectives

Financial framework

Alliander's financial framework is formed by the ratios FFO/net debt, interest cover, net debt/net debt plus equity and solvency. These ratios coupled with the norms against which they are measured are crucial in obtaining and retaining a solid A rating profile on a stand-alone basis. In a departure from IFRS, when calculating the ratio's, the subordinated perpetual bond loan issued in 2013 is treated as 50% equity and 50% borrowed capital.

Ratios based on Alliander's financial policy

	norm	31 December 2014	31 December 2013
FFO/net debt ¹	> 20%	34.0%	38.7%
Interest cover ²	> 3,5	7.6	8.0
Net debt/(net debt + equity)	< 60%	33.6%	36.5%
Solvency ³	> 30%	53.6%	51.1%

1. The funds from operations (FFO)/net debt ratio is the 12-month profit after tax adjusted for movements in the deferred tax assets and liabilities, incidental items and fair value movements plus the depreciation and amortisation of property plant and equipment and intangible assets and deferred income, as a percentage of net debt.
2. The interest cover ratio concerns the 12-month profit after tax, adjusted for the movements in the deferred tax assets and liabilities, incidental items and fair value movements, plus the depreciation and amortisation of property plant and equipment and intangible assets and the net amount of finance income and expense, divided by net finance income and expense adjusted for incidental items and fair value movements.
3. The solvency ratio is arrived at by dividing equity including the profit for the period less the expected dividend distribution to be made in the current year by the balance sheet total less deferred income.

As at 31 December 2014, the FFO/net debt ratio amounted to 34.0% (year-end 2013: 38.7%), compared with a minimum value of 20%. The decrease is mainly accounted for by a lower operating profit, the effect of which was reduced to some extent by a lower net debt position.

As at 31 December 2014, the interest cover ratio worked out at 7.6, which was down on 2013 (8.0). Again, the lower figure is mainly accounted for by a lower operating profit but the effect was offset by lower interest expense. Alliander's financial policy stipulates that this ratio should be a minimum of 3.5.

The ratio of net debt/sum of net debt and equity as at 31 December 2014 amounted to 33.6% (year-end 2013:36.5%). The decline is attributable to a combination of a reduced net debt position and an increase shareholders' equity in 2014. Alliander's financial policy stipulates that this ratio should not exceed 60%.

The solvency ratio as at 31 December 2014 amounted to 53.6% (year-end 2013:51.1%), compared with a minimum of 30%. The rise compared with 2013 is mainly due to a stronger increase in shareholders' equity relative to total assets excluding capitalised construction contributions.

Dividend policy

The dividend policy (as part of the financial policy) provides for distributions of up to 45% out of the profit after tax, adjusted for non-cash incidental items, unless the investments required by regulators or the financial criteria demand a higher profit retention percentage and unless the solvency ratio falls below 30% after payment of dividend.

Investment policy

The investment policy is consistent with the financial policy and is part of Alliander's strategy. Elements of investment policy include compliance with regulatory requirements relating to investments in the regulated domain, such as safety and reliability and the generation of an adequate return on investment. Investment proposals are tested against minimum return requirements and criteria as set out in the financial policy. As well as quantified standards, investment proposals must also satisfy qualitative requirements. It should also be noted that, in principle, investments in the regulated domain arise from a network operator's statutory task.

Shareholders

All of Alliander's shares are held directly or indirectly by Dutch provincial and municipal authorities. A full list of the shareholders can be found on the Alliander website (alliander.com).

The authorised share capital of Alliander N.V. is divided into 350 million shares with a nominal value of five euros. All the shares are registered shares. As at 31 December 2014, there were 136,794,964 issued and paid-up shares.

Contact with shareholders primarily takes place in shareholders' meetings. However, Alliander also believes that it is important to have contacts between the company and the shareholders outside of the shareholders' meetings, on a bilateral basis or in a wider forum. It has accordingly become Alliander's policy to hold periodical informal meetings between the Management Board and the Major Shareholder Consultation Body and the Sounding Board Group.

Alliander also has a Committee of Shareholders. This is a group of shareholders appointed by the General Meeting of Shareholders from among their number on which specific powers are conferred. These powers include the power to recommend candidates for appointment to the Supervisory Board and to appoint and dismiss its members and powers relating to the appointment and dismissal of members of the Management Board. The composition of the Committee can be found on the Alliander website (alliander.com). The Committee's input was sought on two occasions in 2014, namely in connection with the proposed appointment of a new member of the Management Board and in connection with two vacancies on the Supervisory Board that will arise at the AGM in 2015. As part of preparations for the AGM held on 2 April 2014, the Committee also met with the Selection, Appointment and Remuneration Committee of the Supervisory Board.

The Major Shareholder Consultation Body is an informal governance body in which preparations are made for the General Meeting of Shareholders and is also intended as a forum for discussion of relevant developments, for exchange of information and for furtherance of mutual understanding. The Sounding Board Group is an informal discussion forum at working group level which makes preparations for the Major Shareholder Consultation Body's deliberations. In both discussion forums, the same shareholders and shareholder groups are represented as in the Committee of Shareholders. Four meetings were held with the two bodies in 2014. Discussions ranged over such matters as the possibility of a network swap between Alliander and Enexis, the growth strategy, surcharge taxes and Alliander's draft annual plan for 2015.

Alliander's AGM was held on 2 April 2014. The meeting considered the 2013 annual report and formally adopted the 2013 financial statements and the dividend declaration in respect of 2013. The shareholders also ratified the executive decisions of the members of the Management Board in 2013 and the supervision thereof performed by the members of the Supervisory Board. At the same meeting, the shareholders passed a resolution proposing a major expansion drive in the Netherlands and the sitting Committee of Shareholders was reappointed for a period of two years.



Alliander's shareholders are Dutch provincial and municipal authorities, including the Province of Noord-Holland.

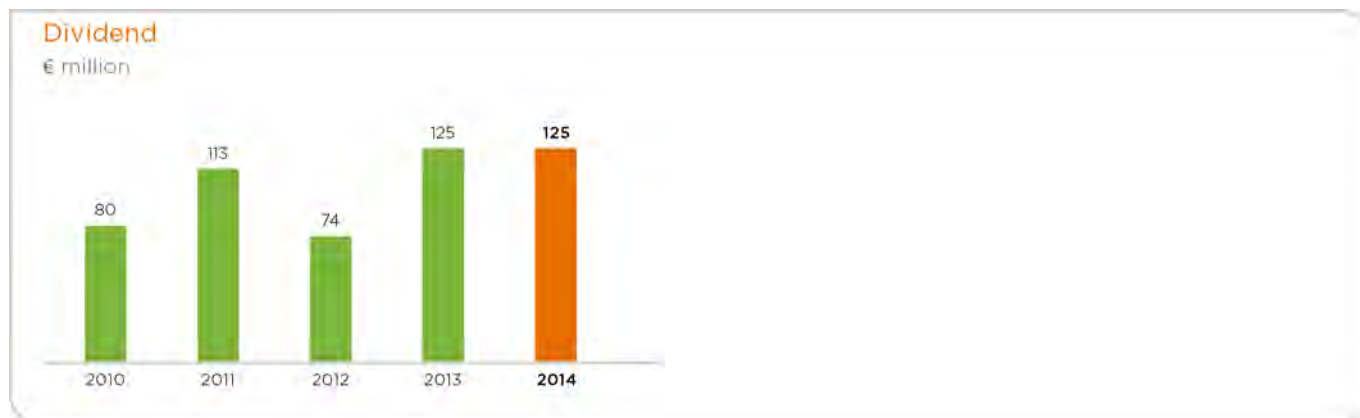
"Alliander is a good and much appreciated partner in our Province. The network company is not only concerned with the present but also with the future. I value the way in which Alliander is prepared to share its knowledge regarding energy transition and sustainable area development. They get involved in energy-related regional problems, such as our district heating system in Zaanstad, a wind farm in the Wieringermeer and a study to pipe CO₂ to greenhouse growers in our region. Simply by consulting each other about long-term investments in this way we are included as a shareholder in these strategic decisions."

Jaap Bond, member of the Noord-Holland Provincial Executive

Proposed profit appropriation for 2014

The Management Board has determined, with the approval of the Supervisory Board, to add €198.2 million of the profit to other reserves. The remaining profit of €124.6 million is at the disposal of the General Meeting of Shareholders. This equates to 45% of profit after tax, excluding incidental items after tax that did not generate cash flows in the 2014 financial year.

The dividend for 2014 remains almost unchanged compared with 2013, despite the fact that the comparable profit figure (profit excluding incidental items) was lower than in the preceding year. This is made possible by the incidental cash gain from the KEMA transaction, which produced €45 million (after tax), practically making up the difference.



Institutional investors

A large part of our financing in the form of borrowed capital is provided by institutional investors in our bond issues, such as asset managers, insurance companies, pension funds and banks. These are professional players on the international financial markets. In order to keep existing and potential bondholders informed regarding the company's financial position and results as well as developments in the industry, Alliander actively engages in investor relations activities in addition to complying with ordinary publication requirements. In this context we organised a roadshow in March 2014, visiting investors in Amsterdam, Paris, London and Frankfurt to give presentations on the financial results and other relevant developments. An investor video conference call was held in September 2014 for the same purpose. Topics covered on both occasions included the tariff reductions planned for the regulatory period 2014–2016 and the impact they will have on Alliander's income, as well as the study announced in March 2014 to explore the possibility of a network swap between Alliander and Enexis.

Interest-bearing debt

The repayment schedule for the interest-bearing debt as at year-end 2014 was as follows:



The amounts scheduled for repayment in 2016, 2019, 2022 and 2024 mainly relate to the bond loans. The other amounts relate to the repayment of shareholder loans and other loans. Alliander has a €3 billion EMTN programme. No new bonds were issued under this programme in 2014. In December 2014, however, bonds amounting to a total of €276 million were redeemed as scheduled, €153 million of the required amount of the repayment being raised by issuing short-term debt instruments in 2014, with the rest provided out of available cash. As at 31 December 2014, the carrying amount of the outstanding bonds was €1,494 million (nominal value €1,500 million). Alliander has available an ECP programme totalling €1,500 million which can be used to issue short-term debt instruments. During the reporting period, Euro Commercial Paper denominated in GBP was issued with an equivalent value totalling €153 million. This amount related entirely to the previously mentioned loan repayment and the euro equivalent was fully hedged. As at year-end 2014, ECP loans with a carrying amount of €155 million were outstanding.

Banks

Alliander previously contracted a committed backup credit facility totalling €600 million with six banks. This facility runs until 13 July 2018. Part of this facility can also be used to issue letters of credit relating to cross-border leases. The facility has not been drawn on.

Rating agencies

In order to retain ready access to the capital and money markets, it is important for existing and potential financiers to have an accurate picture of Alliander's creditworthiness and associated credit ratings. Having a recognised credit rating is also an obligation under the terms of the cross-border lease contracts entered into at the end of the 1990s by Alliander's legal predecessors. Alliander has a credit rating from S&P and Moody's. These ratings comprise a long-term rating with an outlook, and a short-term rating. The outlook is an indication of the expected change in the rating over the next few years. No changes were made by either Moody's or S&P in either ratings or outlook during the year. The credit ratings as at year-end 2014 were as follows:

Credit ratings

	long term	short term
Standard & Poor's	AA- (stable outlook)	A-1+
Moody's	Aa3 (stable outlook)	P-1

During the reporting period, Alliander was in contact with the rating agencies on several occasions. A recurrent theme of these contacts concerned the tariff reductions taking place in the regulatory period 2014–2016. The annual reviews took place in June and October. Based on the recent financial performance and forecast figures for Alliander presented on these occasions, the credit rating agencies reassessed Alliander's creditworthiness, and confirmed the existing ratings and outlook.

Sustainability rating

A relatively new development in recent years is for companies to be assessed on the sustainability of their operations. Amongst other things, this involves reviewing factors with a social dimension such as corporate governance, customer and product liability and the way in which the workforce is treated. Other important factors are environmental concerns such as harmful emissions and consumption of energy and water. The final evaluation is reflected in a sustainability rating. Sustainability ratings, along with credit ratings, are playing an increasingly important role in investment decisions. Some investors, for instance, are only permitted to invest in companies meeting certain minimum sustainability rating criteria. It was in this context that the German sustainability rating agency Oekom reassessed Alliander and, on 14 July 2014, upgraded Alliander's rating from B to B+ (on a scale from A+ (highest) to D- (lowest)). According to Oekom, this rating puts us among the industry leaders in the sector. The improved rating reflects Alliander's many years of focusing on carrying on the business in a sustainable manner with the determination to continue doing so.

Segment reporting

General

Alliander has applied IFRS 8 (Operating Segments) with effect from the 2010 financial year. Alliander identifies the following segments:

- Network operator Liander;
- Network company Endinet;
- Other activities within the Alliander group.

The figures for each reporting segment, excluding incidental items and fair value movements, are shown in the following table. These figures are a direct reflection of the regular internal reporting. Detailed information on segment reporting can be found in [note \[2\]](#) of the financial statements.

Primary segmentation

€ million	Network operator Liander		Network company Endinet		Other		Eliminations		Total	
	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	-	-
Operating income	1,591	1,645	108	117	411	402	-313	-318	1,797	1,846
Operating expenses										
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

Network operator Liander

The network operator Liander segment consists of the legal entity Liander N.V. which, as designated network operator within network company Alliander, has a statutory duty to manage the electricity and gas networks and related assets in the provinces of Gelderland, parts of Friesland, Noord-Holland, Zuid-Holland and Flevoland. Liander connects customers to the electricity and gas networks, through which it distributes electricity and gas. External income in 2014 was down by €56 million compared with 2013, at €1,586 million. This decrease is mainly accounted for by the decrease in the regulated tariffs in 2014. Operating expenses also decreased, by €10 million, mainly owing to reduced billing and payment collection costs and lower repair and maintenance costs. The savings were, however, offset by increased sufferance taxes, higher costs for network losses and an increase in transmission charges passed on by TenneT. Operating profit, at €416 million, was €44 million lower than in 2013.

Network company Endinet

The network company Endinet comprises Endinet Groep B.V., including the network operator Endinet B.V. The external income in 2014 amounted to €108 million, a decrease of €9 million compared with 2013. This decrease was brought about by lower regulated tariffs. The operating expenses came in at €87 million (2013: €90 million). Operating profit for 2014 was €21 million (2013: €27 million).

Other

The Other segment comprises all the other operating segments within the Alliander group, including the activities of Liandon, Stam, Alliander AG, activities in growth markets, the corporate departments and the service units. External operating income in 2014 was up by €16 million compared with 2013, at €103 million. This increase was a consequence of higher revenue from telecoms and CDMA operations among other things. The operating profit for 2014 amounted to €39 million negative (2013: €19 million negative). The main reasons for the increased loss were a downturn in rental income from third parties, lost rent due to vacancies, costs of alterations and activities in growth markets.

Balance sheet

The abridged balance sheet as at 31 December 2014 is shown below:

Consolidated balance sheet

€ million	Alliander N.V.	
	31 December 2014	31 December 2013
Assets		
Non-current assets	7,012	6,933
Current assets	651	593
Non-current assets held for sale	9	22
Total assets	7,672	7,548
Equity and liabilities		
Total equity	3,579	3,375
Non-current liabilities	3,384	3,476
Current liabilities	709	697
Total equity and liabilities	7,672	7,548

The following notes explain the significant changes in the balance sheet as at 31 December 2014 relative to the situation as at 31 December 2013. Detailed information on balance-sheet items is given in the financial statements.

Non-current assets

The amount of non-current assets as at 31 December 2014 was €79 million higher than as at 31 December 2013. This increase is mainly a consequence of higher capital expenditure on the networks in relation to the associated depreciation charges. An increase in property, plant and equipment was partially offset by the effect of reclassifying some of the available-for-sale financial assets as current assets.

Current assets

Compared with the position as at 31 December 2013, current assets were up by €58 million, at €651 million. The increase is mainly accounted for by the above reclassification of available-for-sale financial assets. Offsetting this increase to some extent were lower trade receivables and a lower net figure for derivatives, the latter change being mainly a consequence of the disposal of the KEMA shares.

Assets held for sale

The non-current assets held for sale relate to a high-voltage network in Noord-Holland (€9 million). The assets relating to the Spaklerweg site in Amsterdam included in this item in the preceding year were sold to the City of Amsterdam on 1 September 2014.

Equity

Shareholders' equity as at 31 December 2014 increased by €204 million compared with the level as at 31 December 2013, to €3,579 million. This increase is mainly accounted for by the net profit for 2014, amounting to €323 million, less the dividend distribution in 2014 relating to 2013 (€125 million). A summary of the movements can be found in [note \[12\]](#) of the financial statements.

Non-current liabilities

The amount of non-current liabilities was down by €94 million compared with 31 December 2013. This decrease is mainly due to the release of the CDS provision (€ 126 million). This decrease was partially offset by an increase in revenue received in advance and finance lease liabilities.

Current liabilities

The current liabilities as at 31 December 2014 were up by €12 million compared with the position as at year-end 2013, at €709 million. The increase is largely explained by the higher value of the CDS and the short term ECP financing, partly offset by the repayment of EMTN loans.

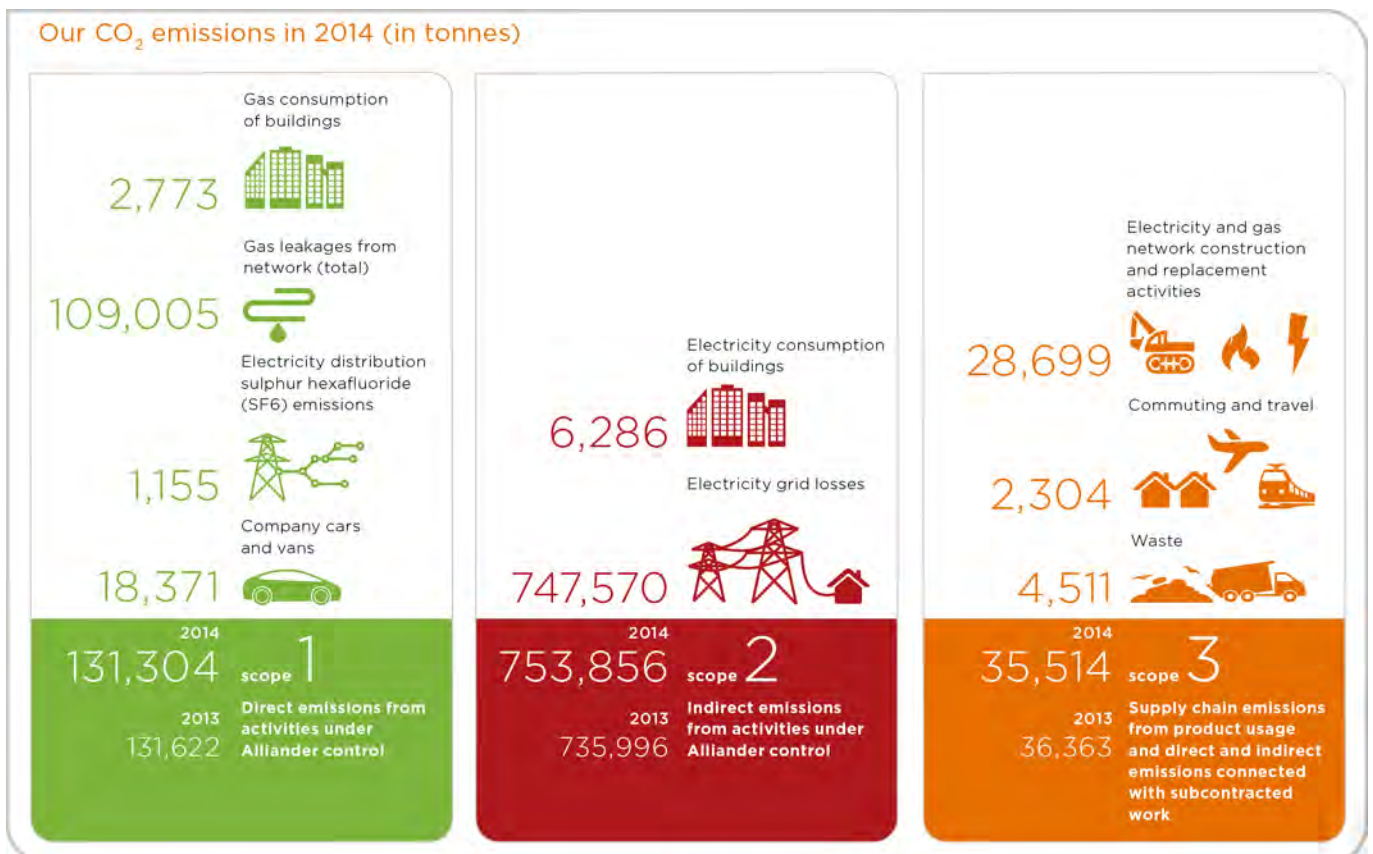
Our sustainability performance

Alliander is working towards a sustainable energy supply in the Netherlands and also on making the company’s own operations sustainable. We recognise our responsibility for the impact we have on the environment. Our careful use of energy and raw materials is in response to the wishes of our stakeholders. During the reporting period we recorded various results relating to CO₂ emissions, usage of resources and sustainable partnerships in the supply chain.

Energy consumption and CO₂

Despite a range of measures, our CO₂ emissions rose to 921 kilotonnes.¹ This is 17 kt more than in 2013, or an increase of 2%. Our carbon footprint is for 90% accounted for by grid losses associated with the distribution of both electricity and gas that cost Alliander €84 million per year. The main cause of the increase in CO₂ emissions are accounting adjustments relating to our customers in respect of the past two years. Excluding these adjustments, most of our emissions remained steady or were down slightly. Our fleet of electric vehicles, for instance, has grown to around 100. A particular achievement was the commissioning of a climate-neutral substation in Lochem, which is good for a reduction of 70 t of CO₂. Many of the measures taken are scalable. Full details of our CO₂ reduction measures can be found in the background information.

1. In order to increase the information provided and enhance comparability between network operators we are using a new industry-wide method for calculating our CO₂ impact with effect from 2014. As a consequence, our objectives and results have been recalculated using this method. In 2013 we reported CO₂ emissions of 819 kt.



Going green by using renewables

Alliander has a substantial CO₂ footprint of around 0.25 tonnes per customer connection to the electricity supply system. In 2014 we signed an initial contract with the operator of a planned new wind farm in the Netherlands. By procuring power from this renewable source of energy under the 'Guarantees of Origin' scheme we shall be going green with respect to around 15% of our CO₂ emissions from 2017 onwards. This represents a first step on the road to becoming climate neutral by 2023. We expect several distribution system operators to follow the strategic direction we have taken. This is something we are trying to encourage through the 'Groene Netten' (Green Networks) national coalition initiated by Alliander in 2014.

CO₂ performance ladder

Our approach to the reduction of CO₂ emissions and the method we employ is subjected to external scrutiny by reference to the CO₂ performance ladder. As at 1 January 2014, Alliander was again certified at level 4 (5 is the top rung of the ladder). The ladder provides a measure of a company's ambitions and performance with respect to CO₂ emissions. CO₂ certification is increasingly becoming a condition in tender requests. Alliander's ambition is to reach level 5 in 2015. To achieve this we shall be concentrating more on initiatives in the supply chain aimed at further reducing the combined emissions of the whole chain. In 2014, we organised a roundtable meeting on CO₂ emissions with a number of contractors and civil-society organisations. This revealed how important it is to have regular and open dialogue and together to look for ways of achieving reductions. The main conclusion was that bilateral project agreements give a greater guarantee of reductions across the supply chain.

'Alliander is unique in asking such direct questions about our, Eaton, CSR activities. And from an international perspective, concerns about CSR issues among our end customers in other countries are much less. Alliander is also one of the few to set specific criteria in relation to the people aspect of the overall sustainability concept of People, Planet, Profit.'

Bert ter Hedde, Eaton Industries (Netherlands) B.V.

Progress in reducing raw material consumption

We recognise our responsibility with respect to our own substantial flows of raw materials and other products that we use. We accordingly keep a close eye on the processing of our waste and expect high standards of the waste processing companies we use. More than 90% of our waste is now recycled.

Apart from our own recycling efforts, our objective is to be procuring at least 40% of our technical materials in the form of recycled materials by 2020. Our intention is that all raw materials that we use should be recycled and that nothing should go to waste. With this aim in view, the Circular Economy programme was launched in 2014. In the spring of 2014 we signed the Circular Procurement Green Deal, committing ourselves to conducting at least two pilot schemes aimed at circular procurement, taking account of both financial value and raw material value. These pilot schemes were begun in 2014. Also in 2014, we signed the Circular Buildings Green Deal, entering into agreements with our supplier concerning the loose furniture in our new and renovated buildings. This resulted in 95% of the materials supplied being 'circular supplies', complete with raw materials passport. This contract is unique in the sector and embodies unique performance agreements relating to procurement, management and recycling.

Like us, our suppliers are hugely ambitious when it comes to circular procurement of materials. This involves monitoring of the entire chain from waste processors to smelters and via component suppliers back to Alliander. Because working towards the circular economy makes considerable demands with respect to knowledge exchange and partnership, a dedicated training programme was launched in 2014 in collaboration with Delft University of Technology. This programme is also open to our suppliers. Our ambitions in this field have also been made known to our main cable producers and waste processors.

Supply chain responsibility



An annual procurement volume of around €750 million in products and services, from suppliers of our choosing, makes us acutely aware of our supply chain responsibilities. Our procurement policy is aimed at improving the world we live in by applying strict supplier selection criteria when inviting tenders and entering into specific supplementary agreements with partners, for example in relation to working conditions, extraction of raw materials, recycling or CO₂ emissions.

Additionally, in 2014 we managed to ensure that 60.9% of our procurement volume was socially responsible (2013: 59.2%) by entering into Socially Responsible Procurement (SRP) agreements with suppliers. The relevant SRP statements document the sustainable supply chain criteria and supplementary agreements covering such things as reduction of CO₂ emissions, use of sustainable materials and job creation.

Alliander's suppliers operate in accordance with the 'Alliander Suppliers Code of Conduct', which requires both them and their manufacturing and other suppliers in the chain to act according to ethical and fair business practices. Failure to observe the code can result in sanctions. Regular audits are carried out to guarantee compliance with our Code of Conduct. Where we partner companies in low-wage countries like China we perform local audits of the suppliers concerned. In addition to the usual checks on quality and the product we look in depth at CSR matters such as working conditions, health & safety and environmental management. For these CSR audits we employ the services of reputable outside organisations that are familiar with the local situation and are in a position to properly assess what is going on. Unethical conduct was brought to light at one supplier during the reporting period and Alliander has reached agreement with the firm concerned on preventing repetitions in future.

1. The 2013 SRP percentage has been adjusted for the electricity procurement costs related to grid losses according to the methodology in force since 2014.

Impact of our supply chain agreements on employment

In 2014 we performed a qualitative analysis to assess the effect of our supply chain agreements in relation to participation in the labour market. We found that:

- Our procurement policy has led to the preservation and creation of jobs. We make a distinction between helping people who have difficulty entering the labour market to obtain initial qualifications and investing in sheltered employment. In 2014, 28 people who had been excluded from the labour market were taken on by our suppliers. Our analysis shows that gaining initial qualifications is genuinely successful. Suppliers are also investing in sheltered employment;
- With respect to labour market participation we have been responding to the desire among our suppliers for joint input to the further evolution of our procurement policy. Suppliers point out that helping people into employment is not always possible because of the specialist or hazardous nature of the work. It is also essential that the impact of the Participation Act (aimed at increased inclusion and participation of people with disabilities in the labour market) should be jointly discussed. Alliander has accordingly set up a working group for this purpose;
- Apart from labour market participation, our suppliers' SRP statements contain specific agreements regarding reduction of CO₂ emissions. Numerous activities are reported by the suppliers we have looked at, but the effect they are having on actual emissions is not so great. This needs improving.

'Liander's invitation to tender led us to examine the entire supply chain. The transparency you demand is indeed something new and progressive. We are not required to go to these lengths for any other customer. Most contracts are awarded solely on the basis of price, with CSR considerations hardly counting at all. With Liander, your corporate social responsibility performance can really make a difference.'

Rik Pothuizen, HKS-Pothuizen

'Alliander's labour market participation requirements echo our own policy completely. The people previously in sheltered employment jobs were taken on by our organisation 1 October 2014 in anticipation of the Participation Act. We have assumed total responsibility for these people, i.e. sick leave/integration, coaching, training, workwear etc. They have been fully integrated, have their own workplaces and simply work alongside and in conjunction with the other employees as part of the normal process.'

Natasja Grobben, GE Industrial Solutions

Events after the balance sheet date

On 15 January 2015, Alliander expanded its interest in Locamation from 14% to 39%, involving an investment of €2 million. Locamation is active in the development and operation of secondary installations for substations.

In October 2014, Alliander AG reached agreement with EWV Energie-und Wasserversorgung GmbH to purchase the gas distribution system serving the municipality of Waldfeucht with effect from 1 January 2015. The relevant concession was acquired in 2014. The purchase price amounted to €3 million and this was paid at the beginning of 2015. The concession runs for 20 years.

On 2 January 2015, the part transaction entered into by the former company ENW in 1998 for the gas distribution systems in Amsterdam was terminated on the contractually agreed date of the option. As a consequence, there was a reduction in the total net carrying amount of the assets included in the cross-border leases (€0.2 billion negative), the related investments (\$0.2 billion negative), the strip risk (\$0.1 million negative) and the amount of the letters of credit issued (\$0.5 million negative). The stated figures relate to the reported amounts as at year-end 2014.

Outlook for 2015



Investment

Gross capital expenditure, chiefly on network replacement and expansion projects but also on investments relating to the energy transition, will together amount to around €550 million in 2015. The extent to which there is growth in decentralised power generation and feed-in is one of the factors affecting the level of our long-term investment plans. Capital projects are also planned in 2015 for activities in sustainability and for renovation of the buildings in Duiven and Arnhem.

One of the more specific and far-reaching capital projects, on top of normal network investments, concerns the phased roll-out of smart meters. Based on current projections, the scale of Alliander's investment in smart meters in the period 2015–2020 will be around €70 million annually, rising to more than €100 million a year.

Financing

Alliander's financial policy is aimed at creating and preserving financial strength and flexibility and securing good access to the capital market at all times by maintaining a solid A rating profile and by such means as ensuring a balanced repayment schedule, having a balanced investment plan, controlling operating costs, having access to committed credit facilities and maintaining adequate reserves of cash and cash equivalents.

Results

Given that the majority of Alliander's operations are regulated and in the light of the current regulation methodology and the changes in the regulated tariffs in 2015, barring unforeseen and incidental developments, Alliander expects a lower operating profit in 2015 than in 2014.

Financial and sustainable value for our stakeholders

Alliander is in continuous dialogue with its stakeholders and aims to create value for them. The following chart presents the different flows of financial resources between Alliander and various stakeholder groups.



Creation of sustainable value

Alliander also distinguishes itself as a network company by making a substantial contribution to the greening of society. We aim to create sustainable value and do so in all sorts of fields, such as by lowering the environmental footprint of the company's own buildings, through the Alliander Foundation and by investing in sustainable innovation. Our shareholders, with whom we are in ongoing dialogue about our sustainability performance, support our steps towards a sustainable economy. They accept a lower dividend payout.

It is Alliander's ambition to give further details of the company's financial value to stakeholders in this part of the report in the years ahead, in response to the growing interest among our stakeholders in gaining a better insight into our sustainability performance.

What have we learned?

Alliander always strives to accomplish its strategic pillars as well as possible. But unexpected incidents, developments and events can never be ruled out. We want to learn from these experiences in order to further enhance the quality of our organisation. In this section, we review certain developments that turned out differently than planned in 2014.

1. Operations

Objective

Continue to improve our performance on services, security of supply and costs through more efficient working practices and doing things 'first time right'.

What have we learned?

We aim to continuously improve our services. Still, our network operators received complaints last year. About 300 complaints were dealt with by Liander's 'Customer Ombudsman', who makes an independent assessment of problems and engages in a dialogue with customers about their experiences. What is the issue, how can we solve the complaint, and what can we learn from it? Most complaints in 2014 concerned incorrect meter readings, interruptions and work during the installation of energy meters. We also received many questions about the feed-in of renewable energy and made new related arrangements with energy suppliers. In addition, the communication about energy self-generation and feed-in has been improved on [Liander's renewed website](#).

We can also enhance the quality of our services by working more efficiently. Various programmes have been started up to do things first time right. For instance, our operational teams start every day with a short meeting about the work in hand and potential bottlenecks. A review of the "Vision on Operations" programme revealed that while improvements have been made in terms of planning and working together, we still need a sharper focus on these aspects. The ongoing changes in recent years place heavy demands on our organisation. We must therefore concentrate more on things that really matter and make clear choices. Only projects that deliver added value will be continued.

2. Innovation

Objective

Facilitate a more sustainable energy market, make energy networks suitable for renewable energy sources and develop innovative technologies and concepts.

What have we learned?

On our exploratory journey towards the energy landscape of the future, we are investing in start-ups, test beds and new technologies. We firmly believe that it is crucial to invest now so we do not miss out on future opportunities.

Some initiatives fail to live up to expectations and others are soon superseded by advancing technology. This happened in 2014 during the small-scale installation of a new technology in our electricity stations for the rapid and accurate location and resolution of network faults. During this process we discovered possible improvements that would make the technology even more successful and future-proof. So we decided to postpone the large-scale roll-out and to further refine the technology, taking full advantage of the lessons learned in practice.

3. Growth

Objective

Grow to improve and strengthen our financial position so that major investments can be realised in the future.

What have we learned?

When Alliander unveiled its growth strategy in 2014, we indicated that economies of scale are crucial to keep energy bills affordable in the future. In this connection, we informed our shareholders of our wish to seek growth in Germany, a country that is transitioning very rapidly towards a more sustainable energy landscape and where we are already active through our subsidiary Alliander AG. In this promising market, opportunities to acquire concessions and gain substantial increases in scale regularly emerge. However, we found that there was currently insufficient support for this step among our shareholders. While our growth ambition did receive their backing, they felt the initial focus should be on the Netherlands. Alliander had set its sights mainly on opportunities in Germany, without sufficiently realising how the shareholding municipalities and provinces (and the people they represent) viewed this option. We have agreed to increase and improve our engagement with shareholders on these matters in the future.

Dilemmas

Alliander actively contributes to the energy supply of tomorrow, including renewable energy. We must make fundamental choices and assessments in our strategy in order to optimally serve society. Still, difficult choices inevitably lead to dilemmas. We engage in an open dialogue with our stakeholders about the issues that challenge us. Below is an overview of the dilemmas we faced in 2014.

For how long and where should we continue constructing new gas distribution networks?

Every year we invest tens of millions of euros in the replacement and construction of gas networks. In the long run, we see a more sustainable future with a diminishing demand for gas. Home insulation is constantly improving, new houses are increasingly energy-neutral and more and more new homes are equipped with electric heating installations, such as heat pumps. Though we expect the use of gas to decrease and the nature of gas services to change as new and existing buildings become more sustainable, we still build new gas networks at our customers' request as well as for new residential neighbourhoods and property development projects. The construction of energy networks is a long-term investment; the networks have an estimated useful life of some 40 to 50 years. However, with the energy transition now under way, we are uncertain whether the same level of investments will be needed over the entire useful life, for instance if gas is used only to gear the demand for heat to the supply of variable renewable energy. The effect of such as factors as the decentralisation of energy production on the use of gas networks is also uncertain. The energy ambitions of the Netherlands and the EU for 2050 leave little room for gas as the main source of heating in the built-up environment. Gas may take on a new role as an energy source for matching supply and demand at household, neighbourhood or regional level. It is uncertain whether a connection to the gas network will be as important in the future as it is today. The development of green gas may give gas an established role in a renewable energy system, while other technological advances in energy may make gas less necessary. Considerable uncertainty continues to surround these developments. Nevertheless, the question as to how long and where we should continue building new gas distribution networks is one we must answer in the coming years.

Growth strategy: in the Netherlands alone or also in Germany?

As part of our contribution to a reliable energy supply for our customers and society, we need to invest in knowledge and technology. And to prevent these socially desirable investments leading to ever higher tariffs for the customer, cost reductions alone are not enough. We also need economies of scale. These can be partly realised through intensive cooperation with other network operators in the areas of procurement and investment in new technology. But we must also grow our customer base. Our company has two options in this respect: more customers in the Netherlands or more abroad, specifically in Germany where network operators have abundant opportunities to tender for electricity and gas network concessions. The Dutch sector offers very little significant growth potential in the short term. Germany, where we have been active since 2002 through our subsidiary Alliander AG, provides plenty of opportunities for expansion. However, without a concrete business case it was difficult to give our shareholders sufficient insight into the consequences of major growth initiatives in Germany, particularly in terms of potential revenue versus the risks of major investments. Another stumbling block is that the network company's growth and scale is a new issue for many of the shareholding provinces and municipalities. We understand this. It has therefore been decided to explore the growth opportunities in the Netherlands even more intensively and to continue exploring ways to share our innovation efforts and thus keep our tariffs as low as possible.

The market for public electric vehicle charging stations

The energy landscape is changing rapidly and new energy markets are emerging as a result of the internet, new technology and IT. One development we have seen in the Netherlands in recent years is the rising number of electric and hybrid vehicles. The growing adoption of electric mobility calls for a reliable charging infrastructure that facilitates electric transport and offers drivers the freedom to charge their vehicles wherever and whenever they want. An open infrastructure creates an accessible Dutch market for car manufacturers and electric transport service providers, without requiring every new entrant to build their own infrastructure to serve customers. An extensive, reliable and open charging infrastructure will help accelerate the expansion of affordable and clean electric driving and the reduction of CO₂, while also spurring innovation. As a network operator, we see it as an inherent part of our social duty to actively assist the integration of charging points into the electricity network. We have noticed, however, that our active stance has led to calls to leave more to 'the market', even though the market is not yet sufficiently effective. As a result, it has not always been easy to find the right balance between actively investing to facilitate the growth of electric transport and encouraging the creation of an open and efficient market for charging infrastructure. We have discontinued our participation in E-laad, the joint initiative of network operators to construct public charging points. Our focus has now shifted to financing investments in the realisation and operation of public and semi-public charging infrastructure, while also promoting an open market model for service providers and stimulating market initiatives for controlled charging. In this way, we can facilitate the expansion of the electric transport charging network and offer innovative businesses a platform for growth, while keeping our own investments to a minimum.

We invite our stakeholders to engage in a dialogue with us and share their ideas about these and other dilemmas. Alliander organises regular round table meetings for this purpose. For more information or to submit suggestions, please contact us via communicatie@alliander.com

Statement by the Management Board

In Control Statement

As the Management Board, we are responsible for the design and effectiveness of our risk management and control system. In 2014, we evaluated the design and effectiveness of this framework, based in part on the business control information, the Internal Audit reports and the management letter from the external auditor.

The risk management and control system cannot provide absolute assurance that the corporate objectives will be achieved, nor can it give any absolute guarantee that material errors, losses, fraud or violations of legislation and regulations will not occur in the processes or in the financial reporting.

With due regard to the above, the Management Board is of the opinion that Alliander's risk management and control system operated effectively in the reporting year in relation to management objectives regarding financial reporting and that they provide a reasonable degree of assurance that the financial reporting contains no inaccuracies of material significance.

Statement of responsibility by the Management Board

We state that:

1. the financial statements provide a true and fair view of the assets, liabilities, financial position and profit of Alliander N.V. and its consolidated group companies;
2. the additional information provided by the Management Board, as included in this annual report, provides a true and fair view of the position as at 31 December 2014 and of the business during the 2014 financial year of Alliander N.V. and its group companies, the results of which are included in the financial statements, and that;
3. the most important risks to which Alliander N.V. is exposed are described in [the annual report](#) in the Strategy section.

Arnhem, 18 February 2015

Management Board

Peter Molengraaf, chairman

Mark van Lieshout, member

Ingrid Thijssen, member



Corporate
governance

Corporate governance

Alliander attaches great importance to good corporate governance, effective supervision and transparent accountability to all stakeholders. As a large energy network company, we play a pivotal role in Dutch society. For this reason, Alliander voluntarily applies the principles and best practice provisions of the Dutch Corporate Governance Code (the Code), insofar as this is possible and the Code is applicable.

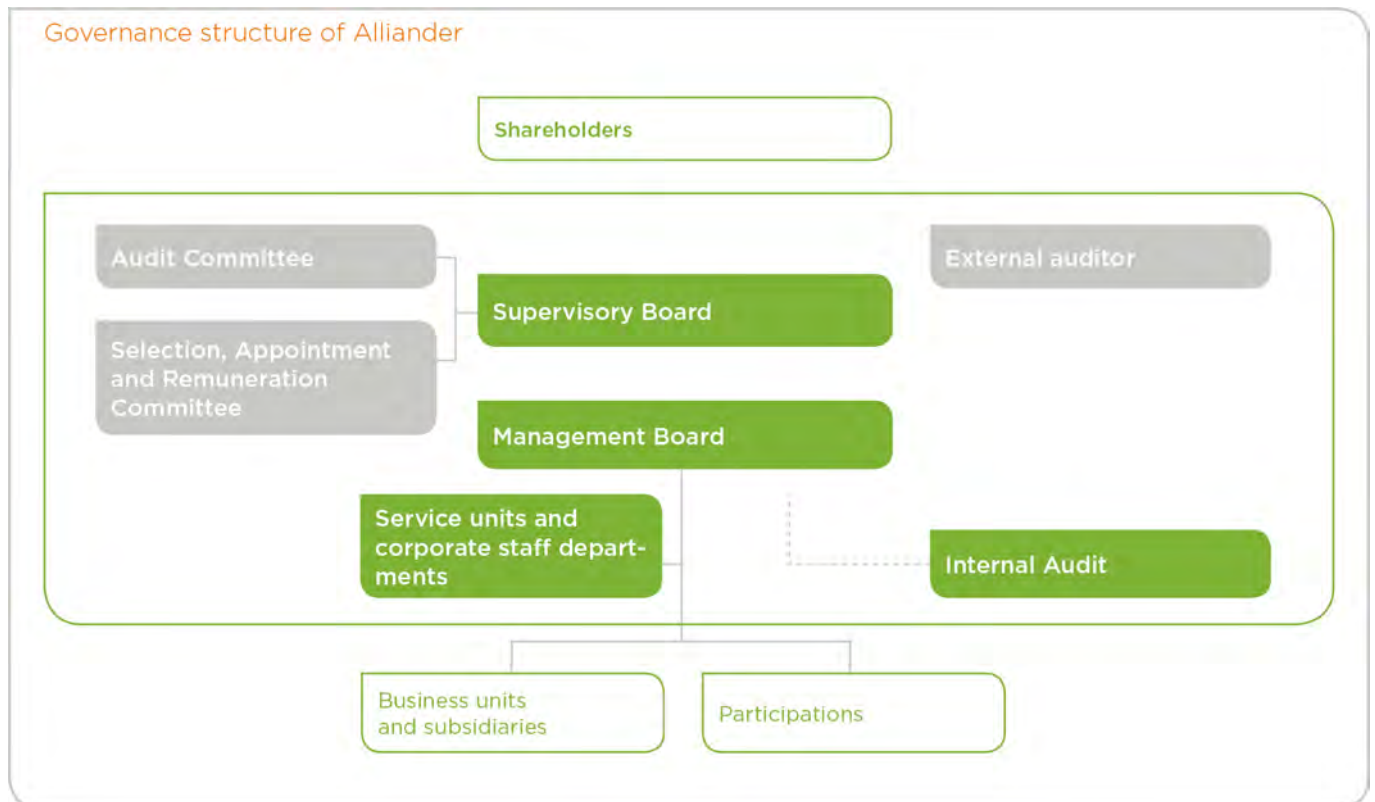
Alliander N.V.

As a company with statutory two-tier status, Alliander has a Management Board and a Supervisory Board. The company is managed by the Management Board, while supervision is carried out by the Supervisory Board. Both bodies act independently of each other and are accountable for the performance of their duties to the General Meeting of Shareholders. The shares of Alliander are held, directly or indirectly, by Dutch provinces and municipalities and are not listed on the stock exchange.

Corporate governance structure in outline

During the reporting year, no substantial changes were made to the outline of the corporate governance structure. Our two principal pillars for good corporate governance remain good executive management and good supervision of that management. To ensure the competent performance of these duties, the Management Board and the Supervisory Board are supported by a system consisting of risk management procedures, internal controls and information in such areas as finance, HRM, strategy and IT. The instruments used for this purpose include a risk management system, a code of conduct and a whistleblower policy, an accounting manual, a monitoring and reporting system, management reports, policy documents and both internal and external audit findings.

At Alliander, the Dutch Corporate Governance Code is embedded in the articles of association, the by-laws of the Supervisory Board and its committees and the by-laws of the Management Board. In addition, the Code is worked out in greater detail in internal regulations, such as a code of conduct (including insider trading policy) and a whistleblower policy. All these regulations are posted on the [website of Alliander](#).



The Dutch Corporate Governance Code can be downloaded from the website commissiecorporategovernance.nl.

Management Board

The Management Board must consist of at least two members. The number of members is determined by the Supervisory Board. Since 1 March 2014, the Management Board consists of three members.

The members of the Management Board are tasked with the day-to-day management of the company and are responsible for the strategy, the definition and realisation of the objectives, the development of the results and all relevant corporate social responsibility aspects. The Management Board is also responsible for the quality and completeness of the published financial reports, the risk management and control mechanisms, compliance with legislation and regulations and the financing of Alliander.

The tasks of the Management Board are divided among its members. Every change in the allocation of tasks requires the approval of the Supervisory Board. The entire Management Board carries collective responsibility, irrespective of the responsibility of each member of the Management Board for the task assigned to him or her.

In view of Alliander's statutory two-tier status, the members of the Management Board are appointed by the Supervisory Board, which notifies the General Meeting of Shareholders of proposed appointments.

Supervisory Board

The Supervisory Board of Alliander consists of at least three and no more than seven members. The number of Supervisory Board members is determined by the General Meeting of Shareholders. As at 31 December 2014, the Supervisory Board consisted of five members with one vacancy.

The Supervisory Board supervises the policy of the Management Board and Alliander's operations in general. The Supervisory Board performs its duties in the best interests of the company and all stakeholders. In addition, the Supervisory Board acts as an advisory body of the Management Board and as the employer of the Management Board. The Supervisory Board fulfils its duties as a collegiate body with collective responsibility.

The members of the Supervisory Board are appointed by the General Meeting of Shareholders (upon the nomination of the Supervisory Board¹). A member of the Supervisory Board is appointed for four years and may be eligible for reappointment. The term of office can never exceed three four-year periods, or twelve years in total. To be eligible for appointment or reappointment, a candidate must meet the criteria as set out in the profile².

1. The General Meeting of Shareholders and the Central Works Council have a non-binding right of recommendation in respect of such nominations. In addition, both the General Meeting of Shareholders and the Central Works Council have an enhanced right of recommendation for one-third of the number of Supervisory Board members.
2. The profile can be viewed as an annexe to the By-laws of the Supervisory Board on the website Alliander.com.

Committees

The Supervisory Board has appointed two standing committees from among its members: the Audit Committee and a combined Selection, Appointment and Remuneration Committee. The duties of these committees are to provide the Supervisory Board with support and advice and to prepare the decision-making; they have no independent decision-making powers.

- The Audit Committee advises the Supervisory Board on such matters as the effectiveness of the internal risk management and control systems, the compliance with relevant legislation and regulations, the quality of the financial information, the development of the results and relevant financial ratios, the tax planning policy, the financing and related strategies, the risk management measures for information and communication technology, the relationship with the external auditor and the role and operation of the internal audit function.
- The Selection, Appointment and Remuneration Committee draws up selection criteria and appointment procedures for the members of the Supervisory Board and the Management Board and makes proposals for appointments and reappointments. The committee also advises the Supervisory Board on the remuneration policy for the Management Board and the remuneration of the individual members, and makes proposals for the remuneration of the members of the Supervisory Board. In addition, the committee prepares the Remuneration Report.

General Meeting of Shareholders

The shares of Alliander are held by 56 public shareholders (municipalities and provinces). An overview of all shareholders can be found on the website Alliander.com.

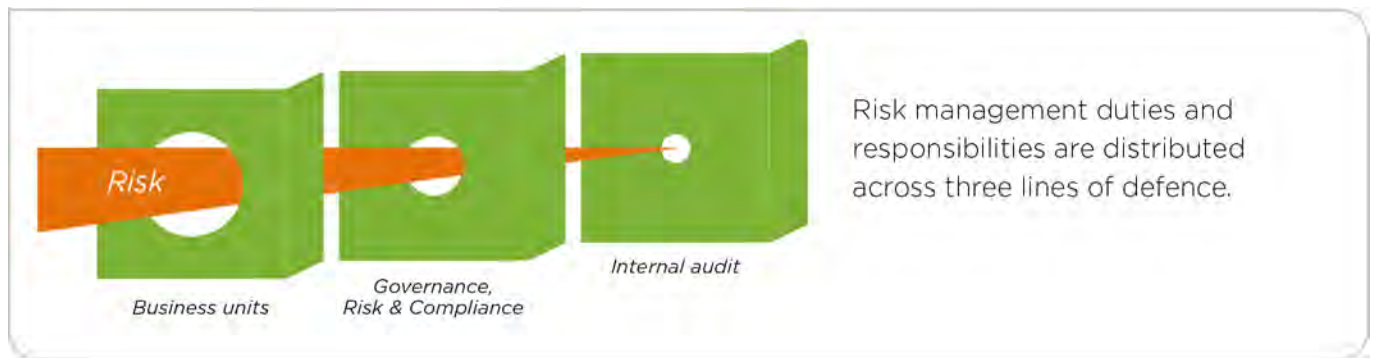
General Meetings of Shareholders are held at least once a year. At these meetings, the annual report is discussed, the financial statements are adopted and the members of the Management Board and Supervisory Board are ratified for their executive decisions and the supervision thereof, respectively. The powers of the General Meeting of Shareholders also extend to such subjects as the appointment of members of the Supervisory Board, the remuneration policy for the Management Board, the appointment or reappointment of the external auditor and amendments to the articles of association. An overview of the most important powers can be found on [Alliander's website](http://Alliander.com). Based on statutory provisions, the Works Council has the right to speak about certain proposed decisions at the General Meeting of Shareholders.

Extraordinary meetings can be held if the Supervisory Board or the Management Board considers this necessary. The agenda of the General Meeting of Shareholders is determined by the Management Board and the Supervisory Board. Shareholders can also convene meetings and/or put items on the agenda, as provided for in the law and the articles of association.

Risk management

Risk management supports the provision of assurance that the strategy and objectives as determined by the Management Board are realised. An effective risk management and internal control system is therefore vital. The Management Board subscribes to this principle. The risk management and internal control system evolves in line with internal and external developments.

We manage our risks according to the 'three lines of defence' model.



1. Our business units. They identify as well as manage and monitor the risks. Every quarter, they report on the status of the risks as part of the planning and control cycle. At the end of the year, the management of the business unit issues an 'In control statement' to the Management Board.
2. The Governance, Risk & Compliance (GRC) Department. Customers, shareholders, regulators and other stakeholders have growing expectations regarding good governance and corporate social responsibility. They insist on effective governance and risk management. To meet these expectations, Alliander set up a new GRC Department in 2014, in which the following activities are combined: risk management, compliance, quality assurance, crisis management, data governance, privacy security and business continuity.
3. Internal Audit. Based on an audit plan, Internal Audit gives an independent opinion on the quality of internal controls, including the risk management function. Outside the organisation, the external auditor also fulfils an independent 'early warning' role.

In addition there are various other measures that are used to control our risks, like the planning & control cyclus, the Business Control Framework and the Alliander accounting manual. These measures are discussed in other parts of this report. Management responsibility for supervising the quality of the control of our top risks also consists of three lines of defence.

1. The Risk Management Committee. This Committee, which is chaired by the CFO, advises the Management Board on the implementation of and compliance with the risk management policy in relation to the corporate objectives. Among other things, the committee assesses risk reports, the control test results and the progress of actions taken on audit recommendations.
2. The Management Board. The members of the Management Board play a proactive role in managing attitudes and behaviours regarding risk management and internal control. Every quarter, the portfolio of top risks is discussed by the members of the Management Board. Where necessary, they will initiate the implementation of additional measures. Moreover, the Management Board monitors the risk management and control system, which it regularly tests against the expectations of and developments at our most important stakeholders.
3. The Supervisory Board. The Supervisory Board supervises the design and effectiveness of the risk management and control system. The portfolio of top risks is discussed every quarter in the Audit Committee and a summary is given to the full Supervisory Board. The Management Board provides an explanation of the risk report, which the Audit Committee takes on board in its supervision. Possible adjustments to the risk management policy, including the risk-bearing capacity, are put to the Audit Committee before these are introduced.

Internal Audit

The Internal Audit Department is an independent function that provides (additional) assurance regarding the control, effectiveness and efficiency of and compliance with the operations to the Management Board and the management. In addition, Internal Audit functions within Alliander as a Fraud Disclosure Office.

Every year, Internal Audit draws up an audit plan based on risk reports and audit findings. This plan, which contains the proposed audit engagements, is discussed with the management and put to the Management Board and the Audit Committee of the Supervisory Board for approval. The Internal Audit Director reports twice a year to the Management Board and to the Audit Committee about the progress of the implementation of the audit plan as well as the actions taken on the recommendations.

The Internal Audit Director acts under the responsibility of the chairman of the Management Board, holds regular consultation with the external auditor and has a reporting line to the chairman of the Audit Committee. The Internal Audit Director attends the meetings of the Audit Committee, as does the external auditor.

External Auditor

The external auditor is PricewaterhouseCoopers Accountants N.V. The external auditor is appointed by the General Meeting of Shareholders upon the nomination of the Supervisory Board, which seeks advice from the Audit Committee and the Management Board.

The auditor examines the consolidated and company financial statements of Alliander and the statutory financial statements of Alliander's subsidiaries. Alongside an audit opinion, the external auditor also reports his findings each year to the Management Board and the Supervisory Board in the form of a management letter and an auditors' report.

In principle, the external auditor attends all meetings of the Audit Committee. He is also present at the meeting of the Supervisory Board in which the financial statements and the external auditors' report on the annual audit are discussed. The General Meeting of Shareholders can ask the external auditor questions about his opinion of the true and fair view of the financial statements.

In conformity with the Audit Profession Act (Wet op het accountantsberoep), Alliander is required to rotate its audit firm every eight years. This means that we are obliged to change our audit firm with effect from 1 January 2016. We will therefore initiate a European tender procedure in 2015 for the annual audit services starting from the 2016 financial year.

Supervision of the network operators

As our network operators Liander and Endinet fulfil a vital role in society, their activities are carefully supervised by a number of external organisations. Among other things, they supervise compliance with specific legislation and regulations.



Compliance with the Code

Provisions not applying to Alliander

Not all the provisions of the Code are applicable to Alliander, because Alliander is a company with a statutory two-tier structure, while the shares may exclusively be held by Dutch lower government authorities and are not listed on the stock exchange. The principles and best practice provisions relating to share and option plans, the issuance of depositary receipts for shares and institutional investors do not apply.

The best practice provisions II.2.4 through II.2.7, II.2.13c, II.2.13d, III.2.2e, III.7.1, III.7.2, IV.1.1, IV.1.2, IV.1.7, IV.3.11 and IV.4.1 through IV.4.3, and the principles included in III.8 and IV.2 do not apply.

Departures from the Code

Alliander complies with virtually all principles and best practice provisions of the Code. For a number of best practice provisions, Alliander adds a qualifying statement and/or does not apply the best practice provision either in part or in whole. This concerns the best practices provisions II.1.1, II.2.3, II.2.8, II.2.14, III.5 III.6.5 en IV.3.1 and the principle included in IV.1. We explain these departures in greater detail on the Alliander website.

Corporate governance statement

This entire section may be regarded as the corporate governance statement referred to in Article 2a of the Decree on Additional Requirements for Annual Reports (Vaststellingsbesluit nadere voorschriften inhoud jaarverslag) as amended most recently on 22 July 2013 ('the Decree'). The information required to be included in this corporate governance statement as referred to in Article 3a(a) of the Decree – namely the main features of Alliander's management and control system relating to its financial reporting – can be found in [the Corporate governance section](#) under Risk management, and is deemed to be incorporated and repeated in this statement.

Members of the Management Board



From left to right: Ingrid Thijssen, Mark van Lieshout, Peter Molengraaf.

Peter Molengraaf, MBA Chairman and Chief Executive Officer (CEO)

Career

Peter Molengraaf (1965) has been chairman of the Management Board and Chief Executive Officer (CEO) of Alliander since 30 June 2009. From 2005 to 2009, he held various management positions at Nuon, lastly as chairman of the management board of the network company. Prior to 2005, he held various positions at Shell, including Manager of the European Customer Service Centre, Cross-Business IT Manager and Commercial Director at Shell Nederland Verkoopmaatschappij.

Peter Molengraaf studied information technology at Delft University of Technology and obtained his MBA at Erasmus University's Rotterdam School of Management. Peter Molengraaf is a Dutch national.

Supervisory Board memberships / relevant other positions

- Chairman of the Members' Council of the Association of Energy Network Operators in the Netherlands (Netbeheer Nederland)
- Chairman of the employer's association for Energy, Cable & Telecom and Waste & Environment Businesses (WENb)
- Member of the Supervisory Board of Vopak Nederland B.V.¹

Mark van Lieshout Member and Chief Financial Officer (CFO)

Career

Mark van Lieshout (1963) has been a member of the Management Board and Chief Financial Officer (CFO) of Alliander since 1 January 2010. From 2008 to 2010, he was Alliander's Director of Finance, Treasury and Tax Affairs. Between 2003 and 2008, he was finance director of N.V. Nuon Business. Prior to 2003 he held various positions, including CFO of ABB Benelux.

Mark van Lieshout studied Business Economics at VU University Amsterdam and completed various Business Programmes at the International Institute for Management Development (IMD) in Lausanne, Switzerland, and the International Directors Programme (IDP) of INSEAD in Fontainebleau, France. Mark van Lieshout is a Dutch national.

Supervisory Board memberships / relevant other positions

- Member of the Supervisory Board of the Canisius-Wilhelmina Hospital

Ingrid Thijssen

Member and Chief Operating Officer (COO)

Career

Ingrid Thijssen (1968) was appointed with effect from 1 March 2014 as a member of the Management Board, with responsibility for the business and operational management of the network operator Liander from mid-May 2014. From 2011 to 2014, she was Chair of the Management Board of NS Reizigers B.V. Between 1997 and 2011 she held various executive and management roles at Nederlandse Spoorwegen.

Ingrid Thijssen studied Law at Utrecht University and completed various programmes, including a Business Programme at the International Institute for Management Development (IMD) in Lausanne, Switzerland, and the Advanced Management Programme (AMP) of INSEAD in Fontainebleau, France. Ingrid Thijssen is a Dutch national.

Supervisory Board memberships / relevant other positions

- Member of the Board of Overseers of HU University of Applied Sciences
- Member of the Advisory Board of the 'Meedoen Mogelijk Maken' foundation

1. Position in a large legal entity within the meaning of the Management and Supervision Act (Wet bestuur en toezicht).

Members of the Supervisory Board



From left to right: Coby van der Linde, Jos van Winkelen, Ada van der Veer, Franswillem Briët, Liesbeth Spies, Ed d'Hondt.

Chairman

E.M. d'Hondt (1944)

First appointed to the Board on 30 June 2009

Current term ends in 2017

Alliander committees: member of the Selection, Appointment and Remuneration Committee

Relevant previous positions: Chairman of VSNU (Association of Universities in the Netherlands), Mayor of Nijmegen Relevant other positions: chairman of the Supervisory Board of Brink Groep B.V.¹, member of the Supervisory Board of BMC Groep B.V.¹, Board chairman of the Netherlands Association of Municipal Health Departments and GHOR Netherlands, chairman of the Line Committee of the New Dutch Waterline, Board chairman of the Montesquieu Foundation, Board member of the Academy for Legislation, member of the Advisory Board of Netherlands Health Insurers

Vice-chairman

J.C. van Winkelen (1945)

First appointed to the Board on 30 June 2009

Current term ends in 2015

Alliander committees: chairman of the Audit Committee

Relevant previous positions: chairman of the Management Board of Vitens N.V., Director of N.V. Nuon Water

Relevant other positions: chairman of the Supervisory Board of Douma Staal B.V., member of the Supervisory Board of Water- en Elektriciteitsbedrijf Bonaire, vice-chairman of the Supervisory Board of Wetsus Centre of Excellence for Sustainable Water Technology, adviser to Hak N.V.

F.C.W. Briët (1947)

First appointed to the Board on 30 June 2009

Resigned for health reasons with effect from 1 January 2015

Alliander committees: chairman of the Selection, Appointment and Remuneration Committee
 Relevant previous positions: chairman of the Management Board of De Goudse Verzekeringen N.V., member of the Management Board of Koninklijke Hoogovens N.V./Corus, Board chairman of Unilever Nederland B.V.

Relevant other positions: chairman of the Supervisory Board of Coöperatieve Bloemenveiling FloraHolland U.A., member of the Supervisory Board of Monuta Holding N.V.¹, Board chairman of Stichting Pensioenfonds van de Metalektro (PME)

Ms J.G. van der Linde (1957)

First appointed to the Board on 29 October 2009
 Current term ends in 2017

Alliander committees: member of the Audit Committee
 Profession / chief position: Director of Clingendael International Energy Programme
 Relevant other positions: Professor of Geopolitics and Energy at the University of Groningen, member of the Supervisory Board of Wintershall Nederland B.V.¹, member of the International Advisory Board of KAPSARC

Ms J.W.E. Spies (1966)

First appointed to the Board on 27 March 2013
 Resigned with effect from 15 December 2014 due to her appointment as mayor of the municipality of Alphen aan den Rijn, which is a shareholder of Alliander

Alliander committees: member of the Selection, Appointment and Remuneration Committee
 Profession / chief position: acting mayor of Stichtse Vecht (from 8 July 2014), mayor of Alphen aan den Rijn (15 December 2014)
 Relevant previous positions: Minister of the Interior and Kingdom Relations in the Rutte 1 government, member of the Provincial Executive of Zuid-Holland, member of the Dutch House of Representatives
 Relevant other positions: Board member of the Dutch Foundation for Consumer Complaints, member of the Advisory Board of Fakton B.V., member of the Supervisory Board of the Regional Broadcasting Foundation West, ambassador for intermunicipal cooperation in the field of decentralisation in the social domain, member of the Supervisory Board of CVO (Association for Christian Secondary Education) in the Rotterdam area, Secretary General of the European Institute for Public Administration

Ms A.P.M. van der Veer-Vergeer (1959)

First appointed to the Board on 30 June 2009
 Current term ends in 2016

Alliander committees: member of the Audit Committee
 Profession / chief position: management consultant on strategy and governance / Director of Stranergy Consultancy
 Relevant previous positions: CEO of Currence Holding B.V., CEO of KPN Business Solutions Division, member of the Executive Board of Achmea Bank Holding N.V., Board chairman of Staalbankiers N.V.
 Relevant other positions: member of the Supervisory Board of LeasePlan Corporation N.V.¹, member of the Supervisory Board of the Netherlands Public Broadcasting Company¹, member of the Supervisory Board of the Stomach, Liver and Bowel Foundation (until 15 November 2014), chairman of the Accountancy Monitoring Committee, adviser for the National Register of Supervisory Directors and Regulators, Board member of Stichting Preferente Aandelen Nedap, core team member of the Supervisory Director Programme ESAA/Erasmus University (from 3 February 2015)

All members of the Supervisory Board are Dutch nationals and meet the requirements of the Dutch Corporate Governance Code (best practice provision III.3.4) and of the Management and Supervision Act (Section 2:252a sub 1 of the Dutch Civil Code) regarding the maximum number of supervisory board positions. None of the members of the Supervisory Board hold another position at a Dutch listed company.

1. Position with other organisation that is qualified as relevant within the meaning of the Management and Supervision Act.

Report of the Supervisory Board

The Supervisory Board of Alliander supervises and advises the Management Board with respect to the formulation and realisation of the company's objectives, strategy and policy. The Supervisory Board also acts as the employer of the Management Board. In this report, the Supervisory Board accounts for its activities in 2014.

Report on the supervisory task of the Supervisory Board

Among other things, the duties of the Supervisory Board comprise:

- the realisation of Alliander's objectives;
- the strategy and the risks associated with the business activities;
- the design and effectiveness of the risk management and control systems;
- the financial reporting process;
- compliance with legislation and regulations;
- the relationship with shareholders;
- the social aspects of entrepreneurship that are relevant to Alliander.

Realisation of corporate objectives

Each year, Alliander draws up an operational year plan, in which the strategic objectives are translated into concrete and measurable operational corporate objectives by means of a balanced scorecard (dashboard). The corporate objectives are defined from four perspectives: safety, customers, employees, and shareholders and investors. Both financial and non-financial key performance indicators (KPIs) are defined in this connection. Based on the quarterly reports, the Supervisory Board monitors the progress on the realisation of these corporate objectives. The year plan 2014 that we approved as well as the underlying corporate objectives were largely achieved.

The Supervisory Board looked closely at the impact of the development of results, the balance sheet ratios and the financial position on the company's creditworthiness. The Board notes with satisfaction that Standard & Poor's and Moody's maintained Alliander's credit ratings in 2014. In addition, the Supervisory Board is delighted with the upgrade of Alliander's sustainability rating by the German CSR rating agency Oekom.

Maintaining a solid A rating profile guarantees sufficient access to the capital markets. In 2014, the company retained its strong ratings from Standard & Poor's (AA-/A-1+ with stable outlook) and Moody's (Aa3/P-1 with stable outlook). This reaffirms that we are a strong and solid company, also in the perception of the financial community.

Ada van der Veer-Vergeer

Strategy and risks

The Supervisory Board observes that progress was made on all three strategic pillars (operations, innovation and growth). The Board subscribes to the current strategy and was actively involved in the development of the national and international growth strategy. Regarding operations, the Supervisory Board took note of various issues, including the outcomes of an external review of the large-scale efficiency programme that was started within the operational organisation in 2013. This provided us with clear insight into the results achieved so far. The Supervisory Board is of the opinion that the focus must now be placed on leadership, costs and culture.

In addition, the Supervisory Board remarks that the company is responding to developments and innovations in various interesting growth markets, such as the operation of charging poles for electric cars and the operation of thermal and biogas networks.

With respect to the company's expansion, it has been agreed with the shareholders that the initial focus will be on possible increases in scale in the Netherlands. Alliander and Enexis are exploring opportunities to exchange the networks in Friesland and Flevoland (Enexis) for the networks in Oost-Brabant (Endinet/Alliander). In addition, Liander and Stedin have entered into a strategic alliance in the field of data traffic in smart networks, with smart meter reading as the main application. A joint mobile communication network will be constructed and managed for this purpose.

The Supervisory Board welcomes these developments, but does not expect them to lead to the increase in scale that is necessary to maintain the affordability of investments in future-proof smart energy networks. To bring about this increase in scale, a far-reaching strategic alliance and/or mergers with other Dutch network companies are needed. Alliander has explored the opportunities for such an alliance and a strategy update on this point will be given at the annual shareholders' meeting in April 2015.

An important part of Alliander's strategic course is the need for economies of scale. The strategic alliance with Stedin in the field of data traffic is a good example. This partnership will create economies of scale in our services and reduce the costs for our customers.

Coby van der Linde

Design and effectiveness of risk management and control system

In December 2014, the management letter of the external auditor, containing the internal control findings that emerged from the 2014 interim audit, was discussed with the Audit Committee and the Supervisory Board. As part of the interim audit, the auditor found that Alliander is a company in motion and that large-scale programmes are underway for different disciplines. According to the auditor, sufficient attention is given to controlling the most important strategic themes and mitigating the attendant risks for Alliander. However, it is important to continue assuring the quality of the basic processes. The embedment of the Business Control Framework and the organisation's response to control framework findings can be improved further. The management has meanwhile taken various actions to resolve these shortcomings. In addition, a number of specific financial and non-financial recommendations were made, which Alliander either has or will take action to fulfil. The auditor's findings mainly concerned the metering data related to network losses and the procedures for controlling contract changes resulting from developments in the internal and external environment. Alliander has taken these issues in hand.

In addition, the findings from internal audits were discussed, as were the actions taken in response to the resulting recommendations. The Supervisory Board monitors progress every half year on the basis of 'in control' reports from the Internal Audit Department. The Supervisory Board established, among other things, that important improvements were made to the internal controls in 2014, for instance in the procurement process. The Supervisory Board has received no indications of any deficiencies in the effectiveness of Alliander's risk management and control system with respect to the control objectives in the field of financial reporting in the year under review.

The design and effectiveness of the risk management system and the main risks to which Alliander is exposed were also discussed every quarter. The Supervisory Board found that the risk management system is becoming increasingly mature and effective.

Financial reporting

The financial quarterly reports, in which the actual results were compared with the 2014 budget, the annual forecast 2014 and the results of 2013, were intensively discussed.

In addition, the Supervisory Board discussed in detail Alliander's annual report and financial statements for 2013 in the presence of the external auditor, including the independent auditors' report and proposed profit appropriation. The Supervisory Board also reviewed Alliander's 2014 half-year report, including the external auditors' report on their findings. Furthermore, the operational year plan 2015 (including investment budget) was reviewed and approved, and the business plan 2015-2019 was discussed. The Audit Committee of the Supervisory Board carried out intensive preparatory work on all these matters.

Compliance with legislation and regulations

In conformity with the Electricity Act 1998 (Elektriciteitswet) and the Gas Act (Gaswet), the Netherlands Authority for Consumers & Markets (ACM) supervises the network operators' compliance with statutory obligations. The ACM is vested with supervisory and enforcement powers, including the power to request information and impose sanctions, such as administrative penalties. In 2014, the Supervisory Board was informed of the outcomes of an investigation into the administrative records of a number of network operators over the 2008-2010 period. The investigation at Liander led to several corrections of the regulated costs, which Liander had also brought to the attention of the ACM in the course of the investigation. The Supervisory Board was also informed of two rulings of the Trade and Industry Appeals Tribunal (College van Beroep voor het bedrijfsleven / CBB) in cases initiated by Liander. The first ruling concerned the ACM's binding instruction to Liander to make safety adjustments to the network that powers street lights in Amsterdam. The CBB overturned this binding instruction and the ACM paid Liander damages of € 5.2 million. The second ruling concerned a binding instruction to Liander for the alleged violation of confidentiality obligations under the Electricity Act 1998 and the Gas Act regarding the former outsourcing relationship with Nuon Customer Care Center. The CBB also overturned this binding instruction and referred the accompanying penalty decision (€ 3.3 million) to the Enlarged Board of Appeal. As regards the binding instruction, it will be examined which expenses were unjustly incurred and must be compensated by the ACM. The proceedings against the penalty decision are expected to be completed in 2015.

In addition, the half-yearly 'Fraud & Incidents' reports of the Internal Audit Department were discussed in the Audit Committee's meetings. Items reported include violations of the Code of Conduct applicable within Alliander, submitted claims and any instances of fraud and theft reported to the Fraud Disclosure Office. Internal Audit carried out various compliance audits to ascertain whether Alliander is compliant with relevant legislation and regulations as well as its internal regulations, standards and values.

Relationship with shareholders

The key channel for contacts between the Supervisory and the shareholders is the meeting of shareholders. In 2014, the Management Board consulted several times with the major shareholders, who are united in the Major Shareholder Consultation Body. The Management Board reports on the contacts with the major shareholders to the Supervisory Board. In addition, the Supervisory Board is of the opinion that contacts between the company and shareholders outside the context of formal shareholder meetings can also be important, both to the company and to the shareholders. Alliander has outlined a policy for bilateral contacts between the company and its shareholders, which is posted on Alliander's website. For an overview of the contacts with shareholders in 2014, please see the Shareholders and investors section of this annual report.

Relevant CSR aspects

As Corporate Social Responsibility (CSR) is an integral part of Alliander's strategy, CSR was a recurring item on the agenda of the Supervisory Board in 2014. The progress on CSR objectives is monitored on the basis of the quarterly reports. In the reporting year, the Supervisory Board devoted specific attention to the safety programme that is aimed at improving the safety culture within the organisation.

In view of the nature of Alliander's activities, safety is a top priority. The Supervisory Board notes that major steps were made towards the further improvement of the safety culture in 2014. And the Board wholeheartedly supports and encourages the integrated approach in the safety programme.

Jos van Winkelen

The Supervisory Board found to its satisfaction that Alliander ended in 15th place on the Transparency Benchmark of the Ministry of Economic Affairs in 2014 (2013: 23rd). According to the Supervisory Board, this confirms that Alliander provides its stakeholders with transparent reports on socially relevant themes. Regarding the Global Reporting Initiative (GRI), the company made the step from G3 to G4 reporting guidelines in 2014. G4 is based on the materiality concept, so this development marks a further improvement in terms of transparency on issues that are specifically relevant to Alliander. The materiality concept entails that the company exclusively reports on subjects that are genuinely relevant to the company's long-term success and that are also perceived as relevant by its stakeholders. The external auditors' opinion on the corporate social responsibility report is given in the Assurance report, which forms part of the annual report.

Other subjects

During the reporting year, various subjects were put to the Supervisory Board for a decision. These included the strategic alliance between Liander and Stedin in the field of data traffic, the exploratory study with Enexis regarding the exchange of energy networks, the adjusted investment proposal for sustainable housing in Duiven, the amendments to the By-laws of the Management Board and the adjustment of the whistleblower policy. In addition, the Supervisory Board determined the variable remuneration for 2013 as well as the objectives for the short-term variable remuneration of the Management Board members for 2014 and for their long-term variable remuneration for the 2014-2016 period. The decision-making on these matters was prepared by the Supervisory Board's Selection, Appointment and Remuneration Committee.

The Supervisory Board spoke on several occasions with the Management Board about the consequences of the Public and Semi-Public Sector Executives' Pay (Standards) Act (Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector / WNT 1) and the Act to Reduce the Maximum Remuneration of Public and Semi-Public Sector Executives (Wet verlaging bezoldigingsmaximum / WNT 2). In 2014, the Supervisory Board expressed its concerns in various ways about the further reduction of the WNT limit. During the consultation phase of the bill, the Supervisory Board wrote to ministers Plasterk and Kamp, setting out its position regarding the consequences of WNT 2. In addition, Alliander initiated several lobby activities. The Supervisory Board is extremely concerned about the company's long-term continuity if the remuneration levels cannot be kept in line with market practices. A further worry is the inconsistency in the application of the WNT: the statutory limit is only applicable to the regional network operators (except the network operators that have not yet been unbundled). The national network operators TenneT and Gasunie have been explicitly exempted from this statutory limit.

Other subjects discussed in the Supervisory Board were:

- the outcomes of the annual employee survey;
- the outcomes of the annual customer satisfaction survey;
- the outcomes of the evaluation of Alliander's growth strategy;
- a review of the top management;
- the search profiles and the selection process for two new Supervisory Board members;
- an update of the smart meter roll-out;
- the review of the energy legislation (including the merging of the existing Electricity Act 1998 and the Gas Act into a single Electricity and Gas Act) as part of the STROOM legislative agenda.

Alliander employees regularly attended meetings of the Supervisory Board during the discussion of subjects within their specific areas of expertise.

Composition and reporting of committees

The Supervisory Board has appointed two committees from among its members to provide the Board with advice on specific tasks and to prepare decisions. These are the Audit Committee and the Selection, Appointment and Remuneration Committee. Both committees report on their meetings and findings to the full Supervisory Board.

Audit Committee

In 2014, the Audit Committee consisted of Mr Van Winkelen (chairman), Ms Van der Linde and Ms Van der Veer-Vergeer. The last-mentioned member qualifies as 'financial expert' within the meaning of best practice provision III.3.2 of the Dutch Corporate Governance Code (the Code). The committee met on five occasions in 2014 in the presence of the CFO; the chairman of the Management Board attended four meetings. The meetings were also attended by the external auditor, the Internal Audit Director and the Corporate Control Manager. In addition, the committee held separate consultations with the CFO, the Internal Audit Director, the General Affairs Director (in connection with compliance) and the external auditor. The issues that emerged during these talks were discussed in the full Supervisory Board.

The Audit Committee assessed and discussed all relevant financial matters that were presented to the Supervisory Board, including the annual report 2013 and the financial statements for that year, the quarterly and half-yearly figures for 2014, the reports of the internal and external auditor, the operational year plan 2015, the investment budget 2015 and the business plan 2015-2019. The Audit Committee also prepared the decision-making by the full Supervisory Board regarding the strategic alliance between Liander and Stedin in the field of data traffic, the transaction with Enexis for the exchange of energy networks and the adjusted investment proposal for the company's building in Duiven. The Audit Committee also addressed several other subjects within its area of responsibility, notably the risk reports, the financial policy and the financing activities 2014-2016, the increase in sufferance tax, the financial results of the participations, the Internal Audit Charter, the Internal Audit vision and mission, and the upcoming tender for an external auditor effective from the 2016 financial year.

In addition, several managers (Tax Affairs Subsidies, IT and Governance, Risk and Compliance) reported on their work during meetings of the Audit Committee. The Tax Affairs Subsidies Manager gave the Supervisory Board an update on current tax issues and the use of subsidies. In the IT field, the Audit Committee was informed of the various IT risks and the measures taken to control these risks. The Governance, Risk and Compliance Department was set up in 2014 and these activities were brought together in one place within the organisation to achieve a more integrated approach. The Audit Committee subscribes to the integration of these business processes. An integrated approach makes it possible to take a proactive and rapid response to risks.

Selection, Appointment and Remuneration Committee

In 2014, the members of the Selection, Appointment and Remuneration Committee comprised Mr Briët (chairman), Ms Spies and Mr d'Hondt. The Committee met on three occasions during the year, partly in the presence of the chairman of the Management Board. All meetings were attended by the HRM Director.

The Selection, Appointment and Remuneration Committee prepared the decision-making by the full Supervisory Board regarding the variable remuneration of the Management Board and the Remuneration Report. In addition, the Committee discussed the procedure for the approval of the expenses of the Management Board members and the progress of the recruitment of new members to the Supervisory Board. Furthermore, the committee prepared the method for the Supervisory Board's self-assessment in 2014. It also discussed at length the consequences of WNT 1 and WNT 2 and the opportunities for resisting this legislation, either through legal steps or otherwise. Finally, the committee conducted individual appraisal interviews with the members of the Management Board as part of the assessment of the Board's performance in 2013.

Internal organisation

Composition of the Management Board

The composition of the Management Board changed in 2014. In view of the multiple challenges confronting the company, it was decided to expand the Management Board from two to three members. Therefore, effective from 1 March 2014, Ms I.D. Thijssen was appointed as a member of the Management Board and COO. Within the Management Board she is responsible for the business and operational management of the network operator Liander. Effective from the same date, Mr P.C. Molengraaf, chairman of the Management Board and CEO, Mr M.R. van Lieshout, member of the Management Board and CFO, and Ms I.D. Thijssen, member of the Management Board and COO, jointly constitute the Management Board.

I see that the arrival of Ingrid Thijssen has made the Management Board more balanced and complementary. I also see that the members of the Management Board are really keen to work together as a team. That's important, considering the challenges that lie ahead in the coming years.

Liesbeth Spies

The male/female ratio in the Management Board is 67%/33% and is thus in line with the diversity objective of the Management and Supervision Act (Wet bestuur en toezicht).

None of the Management Board members hold more than two Supervisory Board positions in large legal entities within the meaning of the Management and Supervision Act. Nor do any of the members act as chairman of a Supervisory Board. This is in accordance with the Management and Supervision Act and the Code.

In 2014, no decisions were made regarding transactions involving conflicts of interest of Management Board members that are of material significance for Alliander and/or the relevant Management Board member. This means that the company complied with best practice provisions II.3.2-II.3.4 of the Code. The By-laws of the Management Board contain a procedure for dealing with actual or potential conflicts of interest.

Composition of the Supervisory Board

Effective from 15 December 2014, Ms Spies has been appointed as mayor of the municipality of Alphen aan den Rijn. The position of mayor and membership of the Supervisory Board are not compatible as Alphen aan den Rijn is a shareholder of Alliander. For this reason, Ms Spies resigned from the Supervisory Board with effect from the above-mentioned date. And Mr Briët resigned from the Supervisory Board for health reasons with effect from 1 January 2015. The procedures for appointing new Supervisory Board members have been set in motion. The Supervisory Board is receiving assistance from an external search agency in finding a successor for Mr Briët.

Mr Van Winkelen will retire by rotation from the Supervisory Board after the General Meeting of Shareholders in 2015. He initially decided not to seek reappointment because of his age, but subsequently made himself available for reappointment for one year to safeguard continuity within the Supervisory Board.

Profile, competences and diversity

A profile was drawn up for the Supervisory Board to provide a guideline for its composition and the appointment and reappointment of its members. The profile can be viewed on the corporate website of Alliander. The members of the Supervisory Board are appointed on the basis of criteria set out in the profile. The aim is to achieve a complementary and diverse composition in terms of background, age, gender and experience.

In 2014, the Supervisory Board's composition was diverse in terms of professional background, knowledge areas and gender. The members had backgrounds in different sectors of industry, including business and financial services, as well as government and the public sector. Their ages also varied, with their years of birth ranging from 1944 to 1966. The male-female ratio in the Supervisory Board was 50/50 and met the diversity target stated in the Management and Supervision Act.

Quality assurance and supervision

Evaluation

The table below indicates the progress made on the improvement and action points from the internal assessment of our performance for 2013.

Improvement / action point	Progress
Better distribution of roles between Audit Committee and Supervisory Board	An even more focused assessment is made of themes / agenda items that can be dealt with directly in the full Supervisory Board.
Promote sector-specific and financial expertise within the Supervisory Board	To further reinforce the Supervisory Board's composition, this aspect will receive specific attention when future vacancies arise. It will also be taken into account when determining the subjects for the Supervisory Board's learning programme.
More in-depth discussion about strategy	Two meetings were organised with the Management Board to discuss the company's strategic course.
Supervisory Board should play a more vigorous sounding board role vis-à-vis the Management Board	This aspect received more attention in 2014, partly by creating more room for informal contacts.

In 2014, the annual self-assessment was carried out under external supervision. The objective of this assessment was to increase the effectiveness of the Supervisory Board. During the self-assessment, extensive attention was devoted to the role of the Supervisory Board vis-à-vis the Management Board and the cooperation between the two bodies. The self-assessment consisted of the following components:

- individual interviews between the external adviser and the members of the Supervisory Board. The outcomes are set out in a report;
- discussion of the report in an assessment meeting without the Management Board;
- determination of improvement and action points;
- discussion of the outcomes with the members of the Management Board.

During the self-assessment it was found that the growth strategy demanded a lot of attention in 2014. The question of whether expansion was unavoidable given the anticipated developments in the ongoing energy transition and their effects on operations and investments gave rise to lively debates. The sequence of the various growth scenarios in particular led to different insights, but ultimately also to a consensus. Another source of discussion was the WNT, which is causing major problems for the company, both at the top and in the wider organisation. Significant efforts were required to find a good balance between what is desired externally and what is necessary to safeguard the quality of the company's management. A further issue that demanded extra attention from the Supervisory Board was the balance between the company's ambition and the organisation's ability to change. And a final theme that kept the Supervisory Board occupied throughout the year was the realignment of the relations between the shareholders, Supervisory Board and Management Board. All in all, however, these matters do not detract from the fact that the Supervisory Board is satisfied with the operating profit and greatly appreciates the efforts of the Management Board and all employees who must carry out their work under the continuous pressure of change. Following the self-assessment, a number of practical working arrangements were also made to increase the effectiveness of the meetings. Amongst other things, the envisaged improvements concern the provision of information and the agenda setting procedure.

Education

The Supervisory Board has put in place a learning programme that is designed to maintain and broaden the expertise and knowledge of the Supervisory Board members, wherever necessary. In 2014, the Supervisory Board looked in detail at cyber crime and cyber security with the external assistance of the European Network for Cyber Security (ENCS). The Supervisory Board sees these as crucial subjects in view of the growing importance of the IT infrastructure around the physical networks and, by extension, the rising risks of cyber crime and its consequences. The Supervisory Board found the ENCS presentation both instructive and informative.

New Supervisory Board members attend an orientation programme, during which they acquire more in-depth knowledge of the energy sector and are introduced to the employees and activities of Alliander.

Insider regulation

On 16 September 2014, an insider regulation took effect within Alliander as part of the Code of Conduct. During the year, all members of the Supervisory Board signed a statement confirming their compliance with the insider regulation. The purpose of this regulation is to prevent the use of insider knowledge and conflicts of business and personal interests, or any semblance thereof, in relation to certain transactions. Anyone directly or indirectly involved in Alliander's transactions in financial instruments or who may have access to insider knowledge is regarded as an insider.

Independence and conflicts of interest

The By-laws of the Supervisory Board contain regulations relating to independence, conflicts of interest and other positions outside the company, amongst other things. All members of the Supervisory Board are independent and – partly thanks to safeguards in the regulations – are able to act independently vis-à-vis each other, the Management Board and other bodies. Each member of the Supervisory Board meets the independence requirements as contained in the Code (provisions III.2.1 and III.2.2).

Due to her membership of the Supervisory Board of Wintershall Nederland B.V., Ms Van der Linde is not independent as prescribed in Section 11 (2b) of the Electricity Act 1998 and Section 3 (2b) of the Gas Act. All other members of the Supervisory Board are independent in the sense of these Acts. This means that none of them have a direct or indirect connection with an organisational entity that produces, procures or supplies electricity or gas.

As none of the Supervisory Board members holds more than five Supervisory Board positions at Dutch listed companies, Alliander is in compliance with provision III.3.4 of the Code. Nor do any of the Supervisory Board members hold more than five Supervisory Board positions at large legal entities within the meaning of the Management and Supervision Act.

In 2014, there were no material transactions involving conflicts of interest of Supervisory Board members (within the meaning of provisions III.6.1 to III.6.3 of the Code), nor did any material transactions take place between Alliander and natural persons or legal entities holding at least 10% of the shares in the company (within the meaning of provision III.6.4 of the Code). The other transactions with the major shareholders are disclosed in the financial statements.

Other business

Meetings

In 2014, the Supervisory Board held seven scheduled meetings. In addition, the Supervisory Board and the Management Board held one ad hoc meeting. Prior to each scheduled meeting, the Supervisory Board met without the attendance of the Management Board members. The full Management Board was present at all these meetings. During 2014, there were a few occasions when a Supervisory Board member was unable to attend a meeting for agenda reasons or because of a holiday. In such cases, the absent Supervisory Board member provided his/her contribution to the other Supervisory Board members in advance. In 2014, the Audit Committee met on five occasions and the Selection, Appointment and Remuneration Committee met on three occasions.

Attendance at meetings in 2014

	E.M. d'Hondt	J.C. van Winkelen	F.C.W. Briët	J.G. van der Linde	J.W.E. Spies	A.P.M. van der Veer-Vergeer
Supervisory Board	8-8	8-8	8-8	7-8	5-8	7-8
Audit Committee	n/a	5-5	n/a	5-5	n/a	4-5
Selection, Appointment and Remuneration Committee	3-3	n/a	3-3	n/a	3-3	n/a

Mr J. Reezigt, General Affairs Director, and Ms M.M.A. de Blik, Manager of the Corporate Secretariat, act as secretary and deputy secretary of the Supervisory Board, respectively. The meetings are prepared in consultation with the chairman of the Supervisory Board.

Contacts with the Central Works Council

The Supervisory Board attaches great value to a good relationship with the Central Works Council. This enables the Supervisory Board to keep in touch with the issues and concerns that matter to Alliander's employees. The Supervisory Board members attended two meetings, in different compositions, between the Management Board and the Central Works Council. During the customary annual informal meeting, the Supervisory Board and the Central Works Council spoke about safety and the large-scale efficiency programme. The Supervisory Board regards the consultation with the Central Works Council as both constructive and valuable.

I feel that the contacts with the Central Works Council (CWC) take place in a constructive manner. In my experience, the CWC is able to strike a healthy balance between the interests of the employees and the organisation, really gets to grips with the various aspects, and speaks freely without holding back. I experienced the consultation both in and outside the formal meetings as open and pleasant.

Franswillem Briët

Financial statements

The financial statements were audited by PricewaterhouseCoopers Accountants N.V., which issued an unqualified opinion. This can be found in the Other information chapter, which forms part of the financial statements.

The Audit Committee extensively discussed the financial statements with the external auditor, in the presence of the CFO, the chairman of the Management Board, the Manager of Corporate Control and the Internal Audit Director. The Supervisory Board then discussed the financial statements with the Management Board, in the presence of the external auditor, and took note of the Audit Committee's findings. Based on the consultation held in this connection, the Supervisory Board is convinced that this annual report meets the statutory provisions as well as the governance and transparency requirements. It forms a good basis for the Supervisory Board to account for its supervision during the year. The members of the Supervisory Board signed the financial statements in order to comply with their statutory obligation under Section 2:101 (2) of the Dutch Civil Code.

The Supervisory Board recommends that the General Meeting of Shareholders adopt the financial statements for 2014, including the proposed profit appropriation and the dividend proposal for 2014, at the General Meeting of Shareholders to be held on 8 April 2015.

In addition, it is proposed to the General Meeting to discharge the Management Board members for their management during the 2014 financial year and the members of the Supervisory Board for their supervision during the 2014 financial year.

A final word

Lastly, the Supervisory Board would like to express its appreciation to the Management Board and all Alliander employees for their drive and commitment in the past financial year.

Arnhem, 18 February 2015

Supervisory Board

E.M. d'Hondt, chairman
J.C. van Winkelen, vice-chairman
Ms J.G. van der Linde
Ms A.P.M. van der Veer-Vergeer

Remuneration report

This remuneration report has been prepared by the Selection, Appointment and Remuneration Committee on behalf of the Supervisory Board. It contains an account of the remuneration policy for the Management Board of Alliander as applied and implemented in 2014.

The remuneration report also includes the remuneration policy for the Supervisory Board members in 2014. An overview of the remuneration awarded to the members of the Management Board and the members of the Supervisory Board for the year can be found in the notes to the consolidated financial statements.

Remuneration policy for the Management Board

General

The remuneration policy is based on the principle that the remuneration must be in line with market practices and must enable Alliander to recruit and retain qualified and expert Management Board members. In addition, the remuneration policy must support the achievement of the company's short- and long-term objectives. The applicable remuneration policy was adopted by the General Meeting of Shareholders in May 2004 and was last amended in April 2006.

Since 1 January 2013, the Dutch Public and Semi-Public Sector Executives' Pay (Standards) Act (WNT) has been applicable to network operators Liander and Endinet. Ms I.D. Thijssen was appointed to the Management Board of Alliander as COO with effect from 1 March 2014. She is also responsible for the management and operations of network operator Liander. For this reason, remuneration arrangements have been made with Ms Thijssen that are consistent with the provisions of the WNT. The arrangements make allowance for the WNT remuneration cap. Ms Thijssen will not be eligible for variable remuneration and an entertainment allowance. The severance payment that will be due upon termination of the employment contract by the company has been capped at € 75,000.

Procedure

The Supervisory Board draws up the remuneration policy for the members of the Management Board based on advice from the Selection, Appointment and Remuneration Committee. The General Meeting of Shareholders of Alliander then adopts the remuneration policy. Within the set remuneration policy, the Supervisory Board, again acting on the advice of the Selection, Appointment and Remuneration Committee, sets the actual remuneration package for each individual Management Board member. The variable part of the income is determined each year.

At the beginning of the year, the Supervisory Board sets the objectives and the accompanying weightings for the variable remuneration. The specific objectives are determined annually in a scorecard and must be challenging, measurable and controllable. The set criteria for the short- and long-term variable remuneration are derived from the most important objectives used to manage the company. The short-term objectives are linked to the performance indicators as defined in the year plan and included in the corporate dashboard. The long-term objectives are related to Alliander's long-term interests as defined in the long-term business plan. In the case of some objectives, the scores are compared with those of other network operators in the Netherlands. Progress is monitored during the year. After the Supervisory Board has assessed the performance of the past year, it establishes the extent to which the members of the Management Board have achieved their objectives. Prior to determining the level of the variable remuneration, the Internal Audit Department verifies the realisation of the scorecard.

If less than the agreed minimum level is achieved for an objective on the scorecard, no variable remuneration whatsoever is paid out for that objective. If the agreed maximum level for an objective on the scorecard is exceeded, the score will be capped at the maximum agreed for that objective. Both the short- and the long-term variable remuneration of the Management Board members will never exceed 100% of the maximum percentage of 30% of the annual gross base salary, including holiday allowance. The entire variable remuneration is subject to a 'claw-back clause'. This means that variable remuneration awarded on the basis of incorrect financial or other information may be clawed back. The Supervisory Board also has the discretionary power to adjust a variable remuneration component awarded in any prior reporting year if, in its opinion, this component would yield unfair or unintended results due to exceptional circumstances during the period under review.

The variable remuneration is paid after the General Meeting of Shareholders has formally adopted the financial statements for the year for which the objectives were set.

Remuneration components

The total remuneration package for the Management Board members consists of the following components:

1. annual gross base salary
2. short-term variable remuneration
3. long-term variable remuneration
4. pension benefits
5. social security charges and other benefits

a. Annual gross base salary

Management Board members receive an annual gross base salary, including holiday allowance. The annual gross base salary is adjusted each year in line with the periodic salary increases for employees, as laid down in the collective labour agreement for network companies.

b. Short-term variable remuneration

The short-term variable remuneration (one year) is aimed at achieving objectives within the current year. The short-term variable remuneration is capped at 30% of the annual gross base salary. Of the short-term variable remuneration, 60% relates to social aspects.

c. Long-term variable remuneration

The long-term variable remuneration is aimed at achieving objectives over a three-year period. The scheme is also intended as a means of retaining the individuals concerned. The long-term variable remuneration is capped at 30% of the annual gross base salary. Of the long-term variable remuneration, 75% relates to social aspects.

d. Pension benefits

The members of the Management Board participate in the pension scheme of Stichting Pensioenfonds ABP as referred to in the collective labour agreement for network companies and applicable to all employees of Alliander. Since 1 January 2004, this has consisted entirely of an average pay scheme. In accordance with current practice in the energy sector, pension entitlement is accrued on the annual gross base salary, and members of the Management Board pay an individual contribution to participate in the scheme.

e. Social security charges and other benefits

In addition to the social security charges and contributions that are normally paid by the company, Management Board members are entitled to an employer's contribution to the premium for the group health insurance plan, contributions to the personal employee benefits budget, an expense allowance and the use of a company car. In addition, the company has arranged accident and liability insurance for the benefit of the Management Board members. The company does not provide loans, advances or guarantees to members of the Management Board.

A restrictive policy is in place for positions outside the company. The Supervisory Board chairman must approve any supervisory board memberships at listed or other companies, while other significant positions outside the company must be reported in writing to the chairman of the Supervisory Board. Any remuneration received for other positions held pursuant to membership of Alliander's Management Board accrues wholly to the company. Any remuneration for other positions that are not held pursuant to membership of Alliander's Management Board accrues to the Management Board member concerned, who is also liable for any resulting tax consequences.

Other principles

Term of appointment

All members of the Management Board are employed by Alliander N.V. on the basis of an indefinite contract of employment.

Notice period and severance policy

Notice periods of three months for the Management Board members and six months for the company have been agreed with the Management Board members.

If the company terminates a Management Board member's employment contract, it is company policy to award a severance payment equal to at least one year's salary, based on the relevant provisions in the individual employment contracts. Under certain conditions, this one-off payment is also made if a member of the Management Board resigns and cannot be reasonably required to continue the employment contract. Relevant examples include a change of control of the company or an irreconcilable difference of opinion on company policy.

Implementation of remuneration policy for the Management Board in 2014

a. Annual gross base salary

The Alliander employees covered by the collective labour agreement for network companies received a general salary increase of 1.2% with effect from 1 September 2014, while the base salary of members of the Management Board also rose by 1.2% on the same date. In 2014, Mr Molengraaf's base salary amounted to € 231,430 (including an 8% holiday allowance), and Mr Van Lieshout's base salary amounted to € 218,060 (including an 8% holiday allowance). The base salary of Ms Thijssen for 2014 amounted to € 160,380 (effective date of employment 1 March 2014), including an 8% holiday allowance.

b. Short-term variable remuneration

The objectives for 2014 remained unchanged compared to the short-term remuneration for 2013.

Objectives for and realisation of short-term variable remuneration for 2014

	Weighting	Realised in 2014 ¹
1. Financial objectives		
Net income after tax (NIAT)	20%	107%
Net operating expenditure (OPEX)	10%	107%
Progress on the 25 most important Asset Management Plan projects	10%	0%
Subtotal	40%	
2. Customer-related objectives		
Customer satisfaction in consumer market	10%	108%
Customer satisfaction in business market	10%	94%
Realised energy savings	10%	110%
Subtotal	30%	
3. CSR objectives		
Employees at a distance from the labour market	10%	103%
Employee survey	10%	0%
Women in leadership positions	10%	110%
Subtotal	30%	
Total	100%	
Realisation rate		85%

1. The Supervisory Board has set bandwidths for the minimum and maximum realisation of the individual objectives. The objectives can be found in the objectives and results chapter and the annual accounts in this annual report. If the realisation of the objective is lower than the minimum of the agreed bandwidth, the score on this objective is set at 0%. If the realisation of the objective is higher than the maximum of the agreed bandwidth, the score on this objective is capped at 110%. The total (weighted average) score for the long- and short-term variable remuneration is capped at 100%.

In conformity with the above overview, the realisation of the short-term variable remuneration works out at 85% of the maximum of 30% of the annual gross salary. In the opinion of the Supervisory Board, the expectations regarding stakeholder management as part of the growth strategy were not entirely fulfilled. Accordingly, the Supervisory Board has decided, in consultation with the Management Board, to adjust this percentage to 60%.

c. Long-term variable remuneration

The objectives for the 2012-2014 period remained unchanged compared to the 2011-2013 period.

Objectives for and realisation of long-term variable remuneration for 2012-2014

	Weighting	Realised in 2014 ¹
Return on invested capital (ROIC)	25%	110%
Frequency of accidents (LTIF)	25%	110%
Electricity outage duration compared to national average	25%	99%
Socially responsible procurement (SRP)	25%	102%
Total	100%	
Realisation rate		100%

1. The Supervisory Board has set bandwidths for the minimum and maximum realisation of the individual objectives. If the realisation of the objective is lower than the minimum of the agreed bandwidth, the score on this objective is set at 0%. If the realisation of the objective is higher than the maximum of the agreed bandwidth, the score on this objective is capped at 110%. The total (weighted average) score for the long- and short-term variable remuneration is capped at 100%.

Based on the extent to which these objectives were achieved, the long-term variable remuneration for Messrs Molengraaf and Van Lieshout for 2012-2014 came out at 100% of 30% of the annual gross base salary⁴.

The Supervisory Board made no use of its discretionary power to adjust the variable remuneration, and also saw no reason in 2014 to consider exercising its right to claw back variable remuneration paid in respect of earlier years.

4. In the total score of 100%, the score for the realisation of the 'Electricity outage duration compared to national average' objective has been estimated at 99% on the basis of the latest information. The last-mentioned score is determined on the basis of the report 'Reliability of electricity networks in the Netherlands' that will be published in March 2015 by the Association of Energy Network Operators in the Netherlands (Netbeheer Nederland). The score for this objective and the definite total score will be adjusted by the Supervisory Board - in conformity with the applicable computation method - should the outcomes of the aforementioned report make this necessary.

d. Pension benefits

Pension costs relate to payments of standard pension contributions, which are based on the annual gross pensionable salary. As contractually agreed, variable remuneration is not pensionable. The pension contributions paid in the year under review for Messrs Molengraaf and Van Lieshout, and Ms Thijssen were, respectively, € 41,095, € 38,618 and € 28,201.

e. Social security charges and other benefits

In 2014, the total amount of social security charges and contributions, the employer's contribution towards the premium for the health insurance plan, contributions to the personal benefits budget, and the expense allowance amounted to € 56,954 for Mr Molengraaf and € 56,568 for Mr Van Lieshout. Social security charges and other remuneration components for Ms Thijssen totalled € 9,444. The crisis levy is included in these three amounts.

5. Effective from 1 January 2015, the pseudo final levy for high incomes ('crisis levy') for employers with employees whose salary from current employment exceeded €150,000 in 2012 and 2013 will be abolished.

Remuneration policy for the Supervisory Board

The remuneration of the Supervisory Board members is fixed and not dependent on the company's results. The remuneration, which is set by the General Meeting of Shareholders, comprises a fixed annual gross amount for the chairman and a fixed annual amount for the other members, as well as fixed gross amounts for committee memberships within the Supervisory Board. The remunerations are adjusted annually in line with the wage developments under the collective labour agreement for network companies. The members of the Supervisory Board are also entitled to an allowance for travel and accommodation expenses. Alliander does not provide any personal loans, guarantees and so forth to the members of its Supervisory Board. Liability insurance has been secured for the members of the Supervisory Board.

The WNT restricts the remuneration of a number of members of the Supervisory Board because of their supervision of network operators. The other members of the Supervisory Board are governed by transitional provisions.

An overview of the total remuneration awarded to the members of the Supervisory Board for 2014 can be found in the notes to the consolidated financial statements.

WNT

The Executives' Pay (Standards) Act (Wet normering topinkomens - WNT) is applicable to the network operators Liander N.V. and Endinet B.V., which are required to report on the remuneration of senior executives. In addition, the WNT requests transparency on the remuneration of (former) employees and severance payments that exceeded a set limit in the reporting year. The separate annual reports of both network operators, which are to be published in the second quarter of 2015, will contain disclosures on the WNT requirements.



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statements

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Consolidated financial statements

Consolidated balance sheet

€ million	Note	2014	2013
Assets			
Non-current assets			
Property, plant and equipment	3	6,218	6,012
Intangible assets	4	322	323
Investments in associates and joint ventures	5	11	32
Available-for-sale financial assets	6	200	297
Other financial assets	7	43	25
Deferred tax assets	17	218	244
		7,012	6,933
Current assets			
Inventories	9	40	37
Trade and other receivables	10	258	282
Derivatives	8	2	19
Other financial assets	6, 7	184	100
Cash and cash equivalents	11	167	155
		651	593
Non-current assets held for sale	33	9	22
Total assets		7,672	7,548
Equity & liabilities			
Equity			
	12		
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			
Non-current liabilities			
Interest-bearing debt	13	1,616	1,611
Derivatives	8	-	6
Finance lease liabilities	19	145	127
Deferred income	14	1,573	1,555
Provisions for employee benefits	15	49	53
Other provisions	16	1	124
		3,384	3,476
Short-term liabilities			
Trade and other payables	18	103	76
Tax liabilities		106	85
Interest-bearing debt	13	159	284
Derivatives	8	80	-
Provisions for employee benefits	15	67	65
Accruals		194	187
		709	697
Total liabilities		4,093	4,173
Total equity and liabilities		7,672	7,548

Consolidated income statement

€ million	Note	2014	2013
Revenue	21	1,696	1,744
Other Income	22	141	102
Total income		1,837	1,846
Operating expenses			
Purchase costs and costs of subcontracted work	23	-406	-416
Employee benefit expenses	24	-465	-453
External personnel expenses	24	-118	-107
Other operating expenses	25	-159	-247
Total purchase costs, costs of subcontracted work and operating expenses		-1,148	-1,223
Depreciation and impairment of property, plant and equipment	26	-354	-357
Less: Own work capitalised		175	191
Total operating expenses		-1,327	-1,389
Operating profit (EBIT)		510	457
Finance income	27	50	43
Finance expense	28	-143	-112
Result from associates and joint ventures after tax	5	-	2
Profit before tax		417	390
Tax	29	-94	-102
Profit after tax		323	288

The profit after tax for 2014 is almost entirely attributable to the shareholders of Alliander N.V.

Consolidated statement of comprehensive income

The comprehensive income was as follows:

€ million	2014	2013
Profit after tax	323	288
Other elements of comprehensive income		
Items that will be reclassified subsequently to profit or loss		
Revaluation of available-for-sale financial assets	22	-5
Movement in fair value cash flow hedges	-	2
Tax	-4	1
Comprehensive income after tax	341	286

The profit after tax for 2014 is almost entirely attributable to the shareholders of Alliander N.V.

Consolidated cash flow statement

€ million	Note	2014	2013
Cash flow from operating activities	30		
Profit after tax		323	288
Adjustments for:			
- Finance income and expense	27, 28	93	69
- Tax	29	94	102
- Profit after tax from associates and joint ventures	5	-	-2
- Depreciation and impairment less amortisation	22, 26	291	296
- Release provision CDS after tax	8	-60	-
- Result divestiture shares KEMA after tax ¹	22	-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 operating activities		623	683
Cash flow from investing activities	30		
Investments in intangible assets	4	-2	-5
Investments in property, plant and equipment	3	-570	-570
Construction contributions received	14	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	30		
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	12	-	-494
Subordinated perpetual bond issued	12	-	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 amount received in connection with the sale of the KEMA shares was €80 million and has been accounted for in the disposals of financial assets included in the cash flow from investing activities.

Consolidated statement of changes in equity

€ million	Equity attributable to shareholders and other providers of equity							Total
	Share capital	Share premium	Subordinated perpetual bond	Hedge reserve	Revaluation reserve	Other reserves	Profit for the year	
As at 1 January 2013	684	671	494	-2	28	1,104	224	3,203
Movement in fair value cash flow hedges	-	-	-	2	-	-	-	2
Revaluation of available-for-sale financial assets	-	-	-	-	-4	-	-	-4
Profit after tax for 2013	-	-	-	-	-	-	288	288
Comprehensive income for 2013	-	-	-	2	-4	-	288	286
Reimbursement subordinated perpetual bond after tax	-	-	-	-	-	-42	-	-42
Redemption subordinated perpetual bond	-	-	-494	-	-	-	-	-494
Issued subordinated perpetual bond	-	-	496	-	-	-	-	496
Dividend for 2012	-	-	-	-	-	-	-74	-74
Profit appropriation for 2012	-	-	-	-	-	150	-150	-
As at 31 December 2013	684	671	496	-	24	1,212	288	3,375
Movement in fair value cash flow hedges	-	-	-	-	-	-	-	-
Revaluation of available-for-sale financial assets	-	-	-	-	18	-	-	18
Profit after tax for 2014	-	-	-	-	-	-	323	323
Comprehensive income for 2014	-	-	-	-	18	-	323	341
Reimbursement subordinated perpetual bond after tax	-	-	-	-	-	-12	-	-12
Dividend for 2013	-	-	-	-	-	-	-125	-125
Profit appropriation for 2013	-	-	-	-	-	163	-163	-
As at 31 December 2014	684	671	496	-	42	1,363	323	3,579

Notes to the consolidated financial statements

Accounting policies

Alliander is a public limited company, with its registered office at Utrechtseweg 68 in Arnhem, the Netherlands.

The 2014 financial statements were signed by the members of the Management Board and the members of the Supervisory Board on 18 February 2015. The Supervisory Board will submit the financial statements for adoption by the General Meeting of Shareholders on 8 April 2015.

The accounting policies are based on the assumption of a going concern.

As permitted by Section 402, Part 9, Book 2 of the Netherlands Civil Code, the company income statement is presented in abridged form.

The Alliander group

Alliander N.V. is a public limited liability company, registered in Arnhem, the Netherlands. The principal activities of Alliander and its subsidiaries (also referred to here as 'Alliander', 'the Alliander group', 'the group' or similar expressions) are the operation of electricity and gas networks covering roughly one third of the Netherlands and the provision of related services.

The subsidiaries Liander and Endinet own and manage the regional gas and electricity networks in the provinces of Gelderland, Friesland, Noord-Holland and parts of Zuid-Holland, Flevoland and Noord-Brabant. Under the Electricity Act 1998 and the Gas Act the management of the networks and regional distribution of energy are the exclusive responsibility of the network operator. Liander provides services relating to the construction and maintenance of complex energy infrastructures. Alliander AG carries on network operation and public lighting activities in Germany. The subsidiary Stam is a medium-sized firm of contractors based in Noord-Holland, engaging in network construction and maintenance work. The activities of Alliander Telecom N.V. and the joint operation CDMA Utilities B.V. concern the group's data communications. Through its subsidiaries Allego, Alliander Duurzame Gebiedsontwikkeling, Hoom, LOCOL, MPARE, Smart Society Services and Energy Exchange Enablers set up in 2013 and 2014, Alliander has taken the initiative in and is facilitating developments and activities aimed at creating a sustainable energy supply for the Netherlands. The increase in sustainable forms of electricity generation on a more decentralised level places demands on the power distribution infrastructure and represents a challenge for network companies. Alliander sees it as its responsibility, together with other market participants, to facilitate this greater sustainability at an acceptable cost to society.

Joint operation

As of 7 October 2014, N.V. Eneco Beheer took over 50% of the voting shares and 40.72% of the profit shares of CDMA Utilities B.V. (CDMA) from Alliander N.V. The activities of CDMA and its wholly-owned subsidiaries Entropia Assets B.V. and Utility Connect B.V. are geared to delivering an operational CDMA data communication network, primarily for the purpose of reading smart meters. The main customers at present are the network operators Liander and Stedin. Eneco paid €4 million to purchase the shares. The two shareholders have also provided finance in the form of long-term borrowed capital amounting to €11 million from Alliander and €8 million from Eneco.

In accordance with IFRS 11, CDMA has been classed as a joint operation with effect from 7 October 2014. This means that the separate assets and equity and liabilities of CDMA to which Alliander is entitled are now treated as assets and equity and liabilities of Alliander N.V. itself, as from 7 October 2014. Under the shareholder agreement between Alliander and Eneco, the two shareholders are separately accountable for the loans which have been granted. Allocation of the assets and other equity and liabilities between the two shareholders is on the basis of the profit shares in CDMA.

For the purpose of preparing Alliander's consolidated financial statements, this means that the loan granted by Alliander is allocated 100% to Alliander and the assets and other equity and liabilities of CDMA are 59.28% allocated to Alliander. The interest has been recognised in Alliander's company financial statements on this basis and therefore recognised as such in the consolidated financial statements of Alliander. The accounting intricacies are presented in [note \[5\]](#).

Non-controlling interests

There is a third-party non-controlling interest in one of Alliander's activities. This concerns a 5% interest on the part of the Municipality of Nijmegen in Indigo B.V., a subsidiary of Alliander Duurzame Gebiedsontwikkeling, see [note \[12\]](#).

IFRS

Alliander's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as at 31 December 2014, as adopted by the European Union (EU). IFRS consists of the IFRS standards as well as the International Accounting Standards issued by the International Accounting Standards Board (IASB) and the interpretations of IFRS and IAS standards issued by the IFRS Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), respectively.

The significant accounting policies used in the preparation of the consolidated financial statements are set out below. The historical cost convention applies. However, certain assets and liabilities, including derivatives, are measured at fair value. Unless stated otherwise, these accounting policies have been applied consistently to the years covered in these financial statements.

The preparation of financial statements requires the use of estimates and assumptions based on experience and considered appropriate by management given the specific circumstances. These estimates and assumptions have an impact on the carrying amounts and presentation of the reported assets and liabilities, the off-balance-sheet rights and obligations and the reported income and expenditure during the year. The actual outcomes may differ from the estimates and assumptions used. [Note \[35\]](#) to the financial statements gives further information on the areas and items in the financial statements where estimates and assumptions are used.

Unless stated otherwise, all amounts reported in these financial statements are in millions of euros.

New and/or amended IFRS standards applicable in 2014

The IASB and the IFRIC have issued new and/or amended standards and interpretations which are applicable to Alliander with effect from the 2014 financial year. The standards and interpretations below have been endorsed by the European Union.

IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Consolidated and Separate Financial Statements have been amended to match the business model of investment entities more closely. Under IFRS 10, investment entities are required to measure their investments in subsidiaries at fair value through profit or loss instead of consolidating them. IFRS 12 has been amended to require the mandatory disclosure of specific information concerning such subsidiaries of investment entities. The changes in IAS 27 also mean that investment entities no longer have the option of recognising investments in certain subsidiaries either at cost or at fair value in their separate company financial statements. Given these amendments, it will be necessary to assess on an ongoing basis whether there is an investment entity. In 2014, Alliander did not have any entities qualifying as investment entities.

IAS 36 Impairment of Assets has been amended to clarify the scope of the recoverable amount disclosures relating to non-financial assets. This is restricted to assets incurring impairment losses when the recoverable amount is based on the fair value less disposal costs. In that case, specific fair value disclosures must be included. This amendment does not affect the present financial statements.

IFRIC Interpretation 21 Levies provides guidance on when to recognise a liability for a levy imposed by a government within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The interpretation clarifies what constitutes an obligating event in the case of levies imposed by a government and when a corresponding liability must be recognised. The most substantial government levies to concern Alliander are the sufferance taxes imposed by municipal authorities. Where sufferance taxes are payable by Alliander in a municipality, the levy is recognised when due. This is in accordance with IFRIC 21. Alliander does not have any other government levies where the recognition of a liability is altered in terms of timing or amount by the application of this interpretation. The application of the interpretation does not have any impact on the reports concerning prior periods and does not affect the present financial statements.

Expected changes in accounting policies

In addition to the above-mentioned new and amended standards, the IASB and the IFRIC have issued new and/or amended standards and/or interpretations in the period up to the end of 2014 which will be applicable to Alliander with effect from the 2015 financial year or subsequent financial years. These standards and interpretations can only be applied if adopted by the European Union.

IAS 19 (Amendments) Defined Benefit Plans, Employee Contributions concerns a simplification of the treatment of employee contributions and contributions from third parties relating to defined benefit plan pension contributions. The amendment, which is applicable with effect from the 2015 reporting period, does not affect Alliander.

IFRS 11 (Amendments) Accounting for Acquisitions of Interests in Joint Operations amends the standard to clarify that, where an interest is acquired in a joint operation, IFRS 3 Business Combinations is applicable in circumstances in which the activity of the joint operation constitutes a business as defined in IFRS 3. This amendment is applicable to periods beginning on or after 1 January 2016. It is expected to have only limited impact on Alliander.

IFRS 15 Revenue from Contracts with Customers replaces the existing standards IAS 11 Construction Contracts and IAS 18 Revenue Recognition and is mandatory for annual reporting periods starting from 1 January 2017 onwards. In essence, the proposals mean that contracts with customers are decomposed into the performance obligations. The recognition of related assets and obligations and the recognition of revenue will be derived from the transaction price allocated to the identified performance obligations (based on the relative fair values of those obligations). The disclosure requirements under IFRS 15 are considerable. The impact as far as the regulated activities are concerned is expected to be limited; the impact in relation to activities in the unregulated domain is potentially substantial. An implementation programme will be initiated at the beginning of 2015 to assess contracts, services and supplies in terms of the new standard, to identify any changes in measurement and recognition and in required disclosures and to ascertain the impact this will have on the accounting and other systems.

IFRS 9 Financial Instruments. In July 2014, the IASB published the final complete version of IFRS 9 Financial Instruments, bringing together the various parts of the IASB project to replace IAS 39. It covers recognition and measurement, impairment and hedge accounting and therefore replaces the requirements of IAS 39 almost entirely. IFRS 9 includes amended requirements for the recognition and measurement of financial assets. The classification of financial assets is related to the business model applicable to the assets and introduces a new category for certain instruments, viz. fair value through other comprehensive income (FVOCI). IFRS 9 includes a new impairment model for all financial instruments, based on the expected losses rather than actual losses, as under IAS 39. In the recognition and measurement of financial liabilities, the only difference concerns the treatment of changes in the credit risk of a liability that is recognised at fair value. The effect of changes in the credit risk of a liability is recognised in other comprehensive income (OCI). IFRS 9 also contains new requirements for hedge accounting, enabling an entity to reflect its risk management more accurately in the financial statements. IFRS 9 is applicable to reporting periods beginning on or after 1 January 2018. Alliander has relatively modest portfolios of financial instruments, as a result of which the impact will be limited; it is expected that the amended impairment methodology will have the greatest impact for Alliander.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). IFRS 10 and IAS 28 have been amended to remove an inconsistency in the recognition of a sale or contribution of assets between an entity in its capacity as investor and an associate or joint venture. The impact of this amendment, which is applicable to periods beginning on or after 1 January 2016, has yet to be ascertained.

Disclosure Initiative (Amendments to IAS 1). IAS 1 has been amended to clarify the disclosure requirements under this standard. The amendments aim to strengthen the usefulness of the disclosures in the financial statements. Specific clarifications are given on a number of aspects, such as materiality, analyses, subtotals and notes etc. The amendments are applicable for periods beginning on or after 1 January 2016. The impact for Alliander has yet to be ascertained.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28). IFRS 10, IFRS 12 and IAS 28 have been amended to clarify the application of the consolidation exception rules for investment entities and their subsidiaries. The amendments, which are applicable for periods beginning on or after 1 January 2016, are expected to have only a minor impact, if any, for Alliander.

The IASB Annual Improvements Process 2010–2012 and the IASB Annual Improvements Process 2011–2013 resulted in corrections and minor amendments to a number of IFRS standards which are applicable for periods beginning on or after 1 January 2015. The IASB Annual Improvements Process 2012–2014 has also resulted in corrections and minor amendments to a number of IFRS standards, which are effective as from 1 January 2016. Since these changes do not have a material impact on Alliander, they are not itemised here.

In addition to the above new and amended standards, there are three changes that are not relevant to Alliander, viz. IFRS 14 Regulatory Deferral Accounts, Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) and Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41).

Basis of the consolidation

Subsidiaries

The consolidated financial statements comprise the financial data of Alliander and its subsidiaries. Subsidiaries are companies over which Alliander, either directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from their activities. In determining whether Alliander has control, actual and potential voting rights that are currently exercisable or convertible are taken into account, along with the existence of other agreements enabling Alliander to control financial and operating policies.

The assets, liabilities and results of subsidiaries are fully consolidated. The results of consolidated subsidiaries that have been acquired during the year are consolidated from the date Alliander obtains control over those subsidiaries. Consolidation of subsidiaries ceases from the date Alliander no longer controls the subsidiary.

The acquisition method is used to account for acquisitions of subsidiaries by Alliander. The purchase price of an acquisition is determined by measuring the fair value of the acquired assets, the issued equity instruments and the assumed or acquired liabilities. The consideration paid includes the fair value of all assets or liabilities arising out of contingent consideration arrangements. The identifiable assets and liabilities and contingent liabilities that are acquired are initially measured at fair value at the date of acquisition, irrespective of the amount that is attributable to non-controlling interests (see also the accounting policies for goodwill). For each business combination, it is determined whether any non-controlling interest in the acquiree is measured at fair value or at the proportionate share of the non-controlling interest in the acquiree's identifiable net assets. The interests of third parties in group equity and the group's profit after tax are presented separately as non-controlling interests and profit after tax attributable to non-controlling interests.

Intercompany transactions, intercompany receivables and payables and unrealised gains on transactions between subsidiaries are eliminated. Unrealised losses are also eliminated, unless the transaction gives rise to the recognition of impairment losses. If appropriate, the accounting policies of subsidiaries are adjusted to ensure the consistent application of accounting policies throughout the Alliander group.

Associates and joint arrangements

Associates are entities where Alliander, directly or indirectly, exercises significant influence, but not control, over the financial and operational policies. Significant influence is assumed when Alliander can exercise between 20% and 50% of the voting rights.

Joint ventures are joint arrangements where the parties having joint control over the arrangement have rights to the net assets of the arrangement. These parties are referred to as investors in joint ventures.

A joint operation is a joint arrangement where the parties having joint control over the arrangement (including Alliander) have rights to the assets and obligations for the liabilities relating to the arrangement. These parties are referred to as participants in joint operations.

In a joint operation, Alliander recognises its assets and liabilities and its revenue and expenses arising from the joint operation.

Article '[Other information](#)' of this annual report contains a list of the associates and joint ventures.

Investments in associates and interests in joint ventures are measured using the equity method. Initial measurement is at historical cost. The carrying amount of the associate or the joint venture includes the goodwill paid at the date of acquisition of the associate or entering into the joint venture and Alliander's share in the changes in the equity of the associate or joint venture after the date of the transaction. The share in the realised results of the entities concerned since the date on which they were acquired is recognised in the income statement and the share in the change in unrealised results of the entities concerned since acquisition date is included in the comprehensive income. If the accumulated losses exceed the carrying amount, they are not recognised unless Alliander has an obligation or has made payments to defray them, in which case, a provision is recognised and charged to income.

Unrealised profits on transactions between the Alliander group and its associates or joint ventures are eliminated pro rata according to the group's interest in the entity concerned. Unrealised losses are also eliminated, unless the transaction gives rise to the recognition of impairment losses. If appropriate, the accounting policies of associates and joint ventures are adjusted to ensure the consistent application of accounting policies throughout the Alliander group.

Scope of the consolidation

In 2014, CDMA Utilities B.V. was deconsolidated and replaced by the joint operation CDMA Utilities B.V. For more comprehensive details, see [note \[5\]](#). In 2013, there were no new consolidations or deconsolidations.

The financial statements include a list of the subsidiaries, associates and joint ventures.

Segment reporting

The reporting of segment information reflects the basis on which management information is reported to the Chief Operating Decision-Maker (CODM). The Management Board is identified as the most senior officer (CODM) responsible for the allocation of resources and for evaluating segment performance. Internal reporting is based on the same accounting policies as are used for the consolidated financial statements. The internally reported results are on a comparable basis, i.e. excluding incidental items and fair value movements. Alliander defines incidental items as items which in the management's opinion do not derive directly from the ordinary activities and/or whose nature and size are so significant that they must be considered separately to permit proper analysis of the underlying results. To qualify as incidental items, a lower limit of €10 million is in principle applied. The reconciliation with the reported figures is given in [note \[2\]](#).

Foreign currency translation

Functional and presentation currency

The items in the financial statements of the entities forming part of the Alliander group are recorded in the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are prepared in euros, Alliander's functional and presentation currency. Currency translation differences on monetary available-for-sale financial assets are recognised in income when they relate to the translation of the amortised cost in foreign currency. All other translation differences are recognised in other comprehensive income.

Translation of transactions and balance sheet items denominated in foreign currency

Transactions denominated in foreign currency are translated into the functional currency at the exchange rates prevailing at that time. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rates at the balance sheet date. Currency translation differences resulting from the settlement of transactions denominated in foreign currency or the translation at the balance sheet date are recognised in the income statement, unless these exchange gains or losses are recognised directly in comprehensive income as cash flow hedges or net investment hedges in a foreign entity.

Translation differences on financial assets and liabilities that are measured at fair value are accounted for in the income statement along with the fair value gains and losses.

Impairments

Assets are allocated to the lowest possible level at which they generate separately identifiable cash flows (cash-generating units). Goodwill is allocated to a level that is consistent with the manner in which goodwill is internally reviewed by management. Impairment of cash-generating units is initially allocated to the goodwill of the cash-generating unit (or group of cash-generating units) and is subsequently allocated proportionately to the carrying amount of the other assets of the cash-generating unit.

Under IFRS, goodwill is tested annually for impairment by comparing the recoverable amount and the carrying amount of the cash-generating unit (or group of cash-generating units to which the goodwill has been allocated). Impairment losses - the difference between carrying amount and recoverable amount - are recognised in the income statement.

If certain events or changes in circumstances necessitate such action, an impairment test is performed in order to determine whether the value of property, plant and equipment, intangible assets or financial assets has been impaired. Each year and when interim results are published, a test is carried out to establish whether such events or changes have occurred.

As in 2013, there were no changes in the cash-generating units in 2014.

The recoverable amount is the higher of the fair value less costs to sell and the value in use. In measuring the value in use, the estimated future cash flows are discounted at a pre-tax discount rate. The discount rate reflects the time value of money and the specific risks that are associated with the assets involved. If certain assets do not generate cash flows independently, the value in use is measured for the cash-generating unit to which the asset involved belongs.

If a previously recognised impairment loss ceases to apply, it is reversed to the original carrying amount less regular depreciation and amortisation up to the date of reversal. Impairments of goodwill are not reversed.

Assets held for sale and discontinued operations

Non-current assets and assets forming part of significant activities that are held for sale, together with the associated liabilities, are presented separately in the balance sheet. Assets are designated as being held for sale if Alliander has committed itself to the sale of the asset involved, if the sales process has started and if the sale is expected to occur within one year of the asset being classified as held for sale. These assets are no longer depreciated, but are recognised at fair value less costs to sell if this amount is lower than the carrying amount. If the sale has not taken place within one year, the asset and associated liabilities are no longer presented separately in the balance sheet unless the failure to meet the one-year time limit is due to events or circumstances beyond Alliander's control and Alliander still intends to sell the asset in question.

Assets held for sale and the associated liabilities are presented as such in the balance sheet from the time that they are designated as held for sale. The comparative figures in the balance sheet are not restated. The results from discontinued operations comprise the results for the entire financial year up to the time of loss of control. The comparative figures are restated in this case.

Property, plant and equipment

Property, plant and equipment is subdivided into the following categories:

- land and buildings;
- networks;
- other plant and equipment;
- assets under construction/prepaid assets.

Property, plant and equipment is measured at historical cost, less accumulated depreciation and impairment. At the time of transition to IFRS on 1 January 2004, Alliander decided to use the option in IFRS 1 'First-Time Adoption of International Financial Reporting Standards' to recognise networks at their deemed cost on that date.

Historical cost includes all expenditure directly attributable to the purchase of an item of property, plant and equipment or the production of an item of property, plant and equipment for own use. The cost of production for the company's own use includes the direct costs of materials used, labour and other direct production costs attributable to the production of the item of property, plant and equipment and the costs required to bring it into its operational condition.

With effect from 1 January 2009, the costs of loans associated with the purchase of an item of property, plant and equipment or assets under construction are capitalised insofar as they can be directly attributed to the acquisition, production or construction of a qualifying asset. For Alliander, this entails the obligatory capitalisation of interest costs from all qualifying assets whose initial capitalisation date falls on or after 1 January 2009.

Costs incurred after the date on which an item of property, plant and equipment has been taken into use are only capitalised if it can be assumed that these costs will generate future economic benefits and if they can be measured reliably. Depending on the circumstances, these costs form part of the carrying amount of the asset involved or are capitalised separately. The carrying amount of the original asset is derecognised on replacement. Maintenance expenditure is charged directly to the income statement in the year these costs are incurred.

Historical cost also includes the net present value of the estimated dismantling and removal costs and, if applicable, the costs of restoring the site to its original condition insofar as there is a legal or constructive obligation to do so. These costs are capitalised at the time of acquisition or at a later date when the obligation arises. In both cases, the capitalised costs are depreciated over the expected remaining useful life of the asset concerned.

Property, plant and equipment is depreciated using the straight-line method over the expected useful lives of the various components of the asset concerned, taking account of the expected residual value.

The useful lives of the asset categories are as follows:

- land: not depreciated;
- buildings: 20 - 50 years;
- networks: 5 - 55 years;
- other plant and equipment: 3 - 60 years;
- assets under construction: not depreciated.

Assets with a short useful life (5 years) forming part of the networks mainly concern electronic equipment. The networks themselves (pipes and cables) generally have a useful life of 40 to 55 years. The expected useful lives, residual values and depreciation methods are reviewed annually and adjusted as necessary. Gains or losses on disposal are determined from the sales proceeds and the carrying amount on the date of disposal. Gains are recognised in other income.

Change in estimate of depreciation period for networks

With effect from 1 January 2013, as a consequence of a change in replacement policy and in view of technological developments, the depreciation periods for large-capacity meters have been reduced. The effect has been an increase in depreciation charges in 2013 of €2 million.

Intangible assets

Goodwill

Goodwill is the amount by which the consideration paid on transfer of ownership exceeds the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiaries or associates acquired. Goodwill recognised on the acquisition of subsidiaries is classified under intangible assets. Goodwill recognised on the acquisition of associates is included in the cost of the investment concerned. If the amount paid on transfer is lower than the fair value of the identifiable assets, liabilities and contingent liabilities (negative goodwill), this difference in the case of subsidiaries is recognised directly through the income statement.

The carrying amount of goodwill consists of historical cost less accumulated impairment. Impairment tests are performed annually in order to determine whether the carrying amount of the goodwill has been impaired. On the disposal of entities or cash-generating units, the goodwill attributable to the entity or unit is taken into account in determining the result on disposal.

Other

Purchased lease contracts are recognised in the balance sheet as other intangible assets, measured on initial recognition at the net present value of the future cash flows. Amortisation is calculated over the average period of the purchased contracts.

Financial assets

Financial assets - mostly investments in loans and shares - are classified into the categories described under the two headings below. Financial assets are classified as current if the remaining term to maturity is less than 12 months at the balance sheet date. They are classified as non-current if the remaining term to maturity is longer than 12 months. Measurement depends on the classification of the financial asset.

Loans and receivables

Loans and receivables are primary financial instruments with fixed or floating payments that are not listed on active markets. Initial measurement of these loans and receivables is at fair value, generally being the cost of the financial asset. Loans and receivables are subsequently measured at amortised cost using the effective interest method.

If the fair value of these financial assets has been hedged, the amortised cost is adjusted for the gain or loss attributable to the hedged risk. These adjustments are recognised in the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value both on initial recognition and throughout the period for which an asset is held. Changes in fair value are recognised through equity (other comprehensive income). When these assets are sold, the accumulated changes in value recognised through equity are recognised in the income statement. Interest income is recognised in the income statement in the period to which it is attributable. Investments in shares or other equity instruments not listed on an active market and whose fair value cannot be estimated reliably are recognised at cost subsequent to initial recognition.

Derivatives and hedge accounting

Derivatives are measured at fair value. In determining the fair value, measurement methods are used which are appropriate in the circumstances and for which adequate data is available. In accordance with the fair value hierarchy, this means using relevant observable inputs to the maximum extent possible and relying on non-observable inputs as little as possible.

Derivatives are classified as current or non-current assets if the fair value is positive and as current or non-current liabilities if the fair value is negative. Derivative receivables and payables with the same counterparty are netted if there is a right to do so and Alliander has the intention to settle the transaction on a net basis.

Accounting for movements in fair value of derivatives

The accounting treatment for the movements in the fair value of derivatives depends on whether the derivative is designated as held for trading or as a hedge (and recognised as such for accounting purposes in an effective hedge), and if the latter is the case, the risk that is being hedged.

Commodity contracts intended for use by the company

Alliander uses energy commodity contracts for physical purchases of electricity and green certificates (renewable energy certificates – RECs) for network losses occurring in the distribution of electricity. Accrual accounting is applied for these contracts and transactions are recognised on the delivery date at the then applicable prices. Contracts are designated as own-use contracts, as contracts for trading or as hedges on the date on which they are entered into.

Hedge transactions

Alliander uses derivatives to hedge foreign exchange risks on assets and liabilities, interest rate risks on long-term loans and price risks arising from energy commodity contracts. These hedge transactions can be divided into two categories:

- fair value hedges: these are instruments hedging the risk of movements in the fair value of assets and/or liabilities, or a part thereof, carried on the face of the balance sheet, or firm commitments, or a part thereof, that may affect profit or loss. A firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates. Fair value movements of derivatives that are designated as fair value hedges are recognised in the income statement, together with the movements in the fair value of the assets or liabilities or groups thereof, that are attributable to the hedged risk;
- cash flow hedges: these are instruments hedging the risk of movements in future cash flows that may affect profit or loss. The hedges are attributable to a specific risk that is related to a balance sheet item or a future transaction that is highly probable. The effective part of the changes in the fair value of the hedge-instruments is recognised in shareholders' equity under the hedge reserves. The non-effective part is taken to the income statement. The accumulated amounts recognised in equity are transferred to the income statement in the period in which the hedged transaction is recognised in the income statement. However, if a forecast transaction that is hedged leads to the recognition of a non-financial asset or liability, the accumulated gains and losses on the hedges are included in the initial measurement of the asset or liability involved. If a hedge ceases to exist or is sold, or when the criteria for hedge accounting are no longer being met, the accumulated fair value movements are held in equity until the forecast transaction is recognised in the income statement. If a forecast transaction is no longer expected to occur, the accumulated fair value movements that were recognised in equity are recognised through the income statement.

Other derivatives

Fair value gains and losses on other derivatives are recognised in the income statement.

Leases where Alliander acts as lessor

Operating leases

Alliander has entered into operating leases for district heating networks, energy-related installations and office space. Operating leases are leases that are not designated as finance leases. Risks and rewards incidental to ownership of the assets concerned are not, or not substantially, transferred to the lessee.

The assets that are leased to third parties under operating leases are classified as property, plant and equipment. The proceeds from operating leases are recognised through the income statement as operating income over the lease period.

Inventories

Inventories are measured at the lower of cost and net realisable value. These inventories consist of raw materials and consumables, inventories in process of production and finished goods. The cost of inventories is determined using the FIFO (first-in, first-out) method. Net realisable value is measured using the estimated sales price in normal operating circumstances, less the estimated costs to sell.

Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently at amortised cost less impairment. Due to the usually short term of these liabilities, the fair value and amortised cost are generally equal to the face value. Impairment losses are recognised through the income statement when it can be determined objectively that an amount is not collectible.

Cash and cash equivalents

Cash and cash equivalents comprise all liquid financial instruments with a maturity date at inception of less than three months. Cash and cash equivalents include cash in hand, bank balances, money market loans and short-term deposits. Overdrafts are only classified as cash and cash equivalents if Alliander has the right to net debit and credit balances, the debit and credit balances are held with the same bank and Alliander has the intention to exercise this right and also actually does so.

Cash and cash equivalents are measured at fair value on initial recognition and subsequently at amortised cost, which in general equals the face value. Cash and cash equivalents also include cash and cash equivalents to which Alliander does not have free access. Amounts owed to credit institutions are recognised as interest-bearing debt.

Interest-bearing debt

Interest-bearing debt consists primarily of loans and is initially measured in the balance sheet at the fair value of the consideration receivable, less transaction costs. With the exception of derivatives, it is subsequently measured at amortised cost. Where the interest-bearing debt is hedged by means of a fair value hedging instrument, the amortised cost of the interest-bearing debt is adjusted for the movement in fair value attributable to the hedged risk. These adjustments are recognised in the income statement.

Leases where Alliander acts as lessee

Finance leases

Alliander has concluded a number of leases. If substantially all risks and rewards incidental to ownership of the assets are transferred to Alliander, the lease is recognised as a finance lease. In that case, an asset and a liability are recognised equal to the lower of the fair value and the net present value of the related future lease obligations when the lease is entered into. The asset is depreciated over the shorter of the useful life of the asset and the term of the lease contract. Consequently, the lease instalments are treated as the repayment of principal and interest to the counterparty (lessor). The interest expenses reflect the effective interest on the investment made by the lessor.

The assets that Alliander holds under finance leases are classified under the item property, plant and equipment. The corresponding lease obligations are recognised as current and non-current liabilities, depending on whether the lease instalments are due within or after 12 months of the balance sheet date.

Operating leases

Operating leases are leases that are not classified as finance leases and where the risks and rewards incidental to ownership of the assets have not, or not substantially, been transferred to the lessee. The cost of operating leases is recognised through the income statement in equal instalments over the lease period.

Construction contributions, government and investment grants

Construction contributions

Construction contributions and payments received from customers, property developers and local and regional authorities for the costs incurred for the electricity and gas infrastructure of new housing projects and industrial estates are recognised as deferred income in the balance sheet. Deferred income is amortised over the expected useful lives of the assets involved. The amortisation is recognised through the income statement as other income.

Government subsidies and investment grants

Government subsidies and investment grants are recognised if there is reasonable certainty that the criteria for receiving the grant are or will be met, and that the grant will be received. Grants received for capital expenditure on property, plant and equipment are recognised as deferred income in the balance sheet and are amortised over the expected useful lives of the assets involved through the income statement as other income.

Government grants and operating subsidies that do not relate to capital expenditure on property, plant and equipment or other non-current assets are taken to income when the associated costs are incurred.

Tax

Deferred tax assets and liabilities that arise from taxable temporary differences between the carrying amount in the financial statements and the carrying amount for tax purposes are determined using the corporate income tax rates that are currently applicable or will be applicable, under current legislation, at the time of settlement of the deferred tax asset or liability. Deferred tax assets, arising, for example, from operating losses, are only recognised if it is probable that sufficient future taxable profits will be available – accounting for them at tax group level. Deferred tax assets and liabilities are only set off if Alliander has a legal right to offset and the assets and liabilities relate to taxes that are levied by the same authority. Deferred tax assets and liabilities are measured at face value.

The corporate income tax charge is determined using the applicable rates for corporate income tax and are recognised at face value. Permanent differences between the results for tax purposes and financial reporting purposes and the ability to utilise tax losses carried forward are taken into account if deferred tax assets have not been recognised for these tax losses.

Provisions for employee benefits

Multi-employer plans

Alliander has a number of defined benefit plans and defined contribution plans for which contributions are generally paid to pension funds or insurance companies. The main pension schemes, which are administered by ABP, take the form of multi-employer plans. Although the pension plans offered by these arrangements are, in fact, defined benefit plans, these plans are treated as defined contribution plans as Alliander does not have access to the required information and its participation in the multi-employer plans exposes it to actuarial risks that relate to the present and former employees of other entities. The pension contributions paid during the financial year are accounted for as pension costs in the financial statements. Where there is an agreement for a multi-employer plan that specifies how a surplus is distributed to the participants or a deficit is to be financed and where the plan is accounted for as a defined contribution plan, a receivable or payable arising from the agreement is recognised in the balance sheet. The resulting gains or losses are recognised in the income statement. The pensions of by far the majority of Alliander's workforce are managed by the ABP pension fund and do not have such contractual agreements.

As a result, no asset or liability has been recognised in the balance sheet. The contributions paid during the year are recognised in the income statement. The same applies to the pensions administered by BPF Bouw and Pensioenfonds voor Metaal en Techniek.

In addition to the above multi-employer pension plans in the Netherlands, Alliander has two defined benefit plans relating to subsidiaries in Germany, although these are not of material importance. These plans are accounted for in accordance with the amended IAS 19.

Pensions and other post-employment benefits

Pensions and other post-employment benefits include, amongst other things, the medical benefit scheme for retired employees. This scheme has not been transferred to an external insurance company or pension fund. The amount of the liability carried on the face of the balance sheet in respect of the medical and other post-employment benefits is made up of the net present value of the gross liability in respect of the defined medical benefit obligation plus or less actuarial gains and losses and less past-service costs not yet recognised as at balance sheet date. These components are computed actuarially.

The present value of the medical benefit obligation is determined using the projected unit credit method which takes into account the accrued entitlements at the balance sheet date and changes in the entitlements. The costs for the medical benefit scheme attributable to the year of service and the accretion of interest to the provision are recognised in employee benefits in the income statement.

Other long-term employee benefits

Other long-term employee benefits include plans, other than pension plans, in which payment does not occur within 12 months after the end of the period in which the employees render the related service. These plans consist of long-term sickness benefits, long-service benefits, payments on reaching retirement age and incapacity benefits for former employees, conditional bonuses and additional annual leave for older employees. These obligations have not been transferred to pension funds or insurance companies. The obligation for other long-term employee benefits in the balance sheet consists of the net present value of the vested benefits. If appropriate, estimates are made of future salary rises, employee turnover and similar factors. These factors form part of the calculation of the provision. Changes in the provision resulting from changes in actuarial assumptions and benefits are taken directly to the income statement. The service costs attributable to the year of service and the accretion of interest to the provision are recognised in employee benefits in the income statement.

Termination benefits/restructuring

Termination benefits are benefits resulting from a decision by Alliander to terminate the employment contract before the normal retirement date or the voluntary decision of an employee to agree to the termination of the employment contract. The nature and the amount of the termination benefits are laid down in the Social Plan. The Social Plan is renegotiated periodically. A provision is only recognised if Alliander has drawn up a detailed restructuring plan which has been approved and communicated and it is not probable that the plan will be withdrawn at a later date. The provision is measured at the fair value of the obligation. If the payment is expected to occur more than 12 months after the balance sheet date, the provision is stated at net present value.

Other provisions

Provisions are recognised when:

- there is a legal and/or constructive obligation at the balance sheet date arising from events that occurred before the balance sheet date;
- it can be reasonably assumed that an outflow of economic resources will be required to settle the obligation and a reliable estimate of the obligation can be made.

Provisions are measured at the face value of the amounts deemed necessary to settle the obligation, unless the time value of money is significant. In that case, the provision is stated at net present value. The accretion of interest is recognised as finance expense in the income statement.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently at amortised cost. Due to the usually short term of these liabilities, the fair value and amortised cost are generally equal to the face value.

Revenue recognition

Revenue is recognised at the fair value of the transaction in the period in which the supply of goods and services takes place. In addition, as revenue is only recognised when the risks and rewards of ownership have been transferred to the customer, it is probable that the economic benefits will flow to Alliander and the proceeds can be measured reliably.

Revenue

Revenue is made up of:

- regulated revenue, i.e. revenue from the distribution of electricity and gas to customers and from connecting customers, including fixed components, referred to as the capacity tariff. Also included in this figure is the revenue from providing electricity and gas metering services for small-scale users. For the provision of these various services in the retail market in the period from the final statement for the year up to the balance sheet date, estimates are made of revenue to be billed;
- deregulated revenue such as from large-user metering services, transformer rental charges and charges for the construction and maintenance of complex energy infrastructures.

Other income

Other operating income consists of the following and items, among others:

- amortisation of construction contributions, and government and investment grants; for details, reference is made to the relevant accounting policies;
- results on the disposal of property, plant and equipment and financial assets, i.e. the balance of the net proceeds from the sale and the carrying amounts of the assets disposed of. Gains and losses on the disposal of assets are presented net.

Purchase costs and costs of subcontracted work

This includes the costs of network losses, including the expected effects of reconciliation, the costs of distribution capacity and distribution restrictions and the costs of compensation payments. It also includes the costs of raw materials, consumables and supplies used for the supply of goods and services and the cost of subcontracted work such as billing and payment collection and engagement of subcontractors.

Own work capitalised

This item includes the costs of Alliander staff incurred on capital expenditure projects.

Finance income

This item consists of the interest income on financial interest-bearing assets, i.e. loans, receivables, money market loans and deposits, measured using the effective interest method, and income from foreign currency results and movements in the fair value of interest rate derivatives.

Finance expense

This item consists of the following:

- interest expenses; this includes the interest expenses on interest-bearing liabilities, measured using the effective interest method. Interest-bearing liabilities consist of loans, liabilities under the Euro Medium Term Notes programme, subordinated and green loans and commercial paper, with the exception of the subordinated perpetual bond loan. Also included with interest expenses are other finance-related costs, such as letters of credit, commitment fees and premium paid in connection with the early redemption of corporate bonds issued by the company etc.;
- foreign exchange differences; foreign exchange differences arising from the translation of transactions denominated in foreign currencies, financial assets and liabilities and derivatives in foreign currencies, except for the results of cash flow hedges, which are initially recognised in equity;
- fair value movements on interest rate derivatives that are used to hedge future cash flows and the corresponding adjustment of the amortised cost of hedged financial assets and liabilities for the movement in the value of the hedged risk; and
- results on terminating cross-border leases or other financing contracts.

Policies for the consolidated cash flow statement

The cash flow statement is prepared using the indirect method. The movement in cash and cash equivalents is derived from profit after tax according to the income statement. Exchange differences and all other movements not resulting in cash flows are eliminated. The same applies to the finance income and expense and the corporate income tax recognised in the income statement. These items are replaced in the cash flow from operating activities by the interest paid/received and the tax paid/received, respectively. The financial consequences of the acquisition or sale of associates and subsidiaries are shown separately in the cash flow from investing activities. As a result, the cash flows presented are not reconcilable with the changes in the consolidated balance sheets.

The definition of cash and cash equivalents in the cash flow statement is the same as that used in the balance sheet.

Note 1 Business combinations

General

In December 2013, Alliander Netz Heinsberg GmbH reached agreement with EWV Energie- und Wasserversorgung GmbH on the purchase of the gas distribution network in the municipality of Heinsberg with effect from 1 January 2014. The relevant concession was acquired at the end of 2012. The purchase price for the network, which was paid at the beginning of January 2014, was €10 million. The concession runs for 20 years (up to 31 December 2032). The allocation of the purchase price of €10 million is disclosed in the following statement.:

€ million	Fair value as at 1 January 2014
Property, plant and equipment	9
Total non-current assets	9
Total liabilities	-
Net assets acquired	9
Purchase price	
Cash	10
Less: net assets acquired	-9
Goodwill	1

The total purchase price amounted to €10 million on 1 January 2014, made up of a cash payment. The acquisition is included in the Other segment.

Note

Net assets acquired (€9 million)

The net assets acquired relate to mains networks, connections and meters.

Goodwill

The goodwill of €1 million relates to the expected synergistic gains.

Other

The total costs associated with the acquisition of the gas networks in Heinsberg amounted to €0.25 million. These costs were expensed in 2012 and 2013. The revenue from these networks in the period 1 January 2014 to 31 December 2014 amounted to €1.8 million. The net profit over that period amounted to €0.4 million.

Note 2 Segment information

Segments

Alliander distinguishes the following reporting segments:

- Network operator Liander;
- Network company Endinet;
- Other.

This segmentation reflects the internal reporting structure, specifically the internal consolidated and segmented monthly reports, the annual plan and the business plan.

Network operator Liander, accounting for almost 80% of the revenue, forms the largest company within the Alliander group and is responsible for providing gas and electricity connections and for transporting gas and electricity in Gelderland and parts of Noord-Holland, Flevoland, Friesland and Zuid-Holland.

Network company Endinet Groep B.V., including network operator Endinet B.V., has largely similar activities to those of Liander, but serving the Eindhoven and Oost-Brabant distribution area. Although, on the basis of quantitative criteria, Endinet does not qualify as a separate reporting segment, the Management Board has decided that Endinet should nevertheless report as a separate segment for the following reasons:

- agreement has been made with the former shareholders of Endinet determining that Endinet B.V. should continue to exist as a separate network operator within Alliander in any case until mid-2015;
- Endinet B.V. will continue to report separately as an independent network operator to such authorities as the Authority for Consumers & Markets (ACM);
- a different geographical location.

The Other segment covers the entirety of the other operating segments within the Alliander group, such as the activities of Liandon, Stam and Alliander AG, activities in growth markets, the corporate staff departments and the service units. Liandon provides services relating to the construction and maintenance of complex energy infrastructures, on behalf of Liander as well as third parties. Alliander AG carries on network operation and public lighting activities in Germany. Stam is a medium-sized firm of contractors based in Noord-Holland, engaging in network construction and maintenance work. These activities are undertaken on behalf of third parties as well as on contract to Liander. In the growth markets, targeted investments are made in the infrastructure for electric vehicles, sustainable area development and sustainable housing. The corporate staff departments and service units include the Shared Services and IT, which perform activities on behalf of Liander and Endinet among other units. All these activities can be combined into a single segment inasmuch as they do not satisfy the quantitative criteria in order to qualify separately as reporting segments.

Reporting

Alliander produces monthly management reports for the Management Board, with quarterly reports for the Supervisory Board as well. As regards both balance sheet and income statement, these reports use the same accounting policies and classification as the financial information contained in the financial statements. The Management Board assesses the performance of the business on the basis of these reports. The financial reports focus on the consolidated and segment information concerning operating expenses. The operating result is also included on a comparable basis, i.e. excluding incidental items and fair value movements. The operating result is total income less total expenses.

The primary segmentation analysis is as follows, including reconciliation with the reported figures.

Note

General

The external revenue of Liander and Endinet mainly comprises income from energy transport, connection and metering services. In the Other segment, external revenue mainly derives from the services provided by Liandon and Stam and the income from network operation activities in Germany. The eliminations result from the internal services provided by corporate staff departments, service units (such as IT and Shared Services) and Stam to Liander and Endinet. These internal supplies are made at cost.

Primary Segmentation

€ million Income statement	Network operator Liander		Network company Endinet		Other		Eliminations		Total		Reclassification to reported and fair value movements and incidental items		Reported	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Operating income														
External revenue	1,586	1,642	108	117	103	87	-	-	1,797	1,846	40	-	1,837	1,846
Internal revenue	5	3	-	-	308	315	-313	-318	-	-	-	-	-	-
Total revenue	1,591	1,645	108	117	411	402	-313	-318	1,797	1,846	40	-	1,837	1,846
Operating expenses														
Purchase costs and costs of subcontracted work	665	661	15	11	145	133	-67	-77	758	728	-352	-312	406	416
Operating expenses	564	577	39	47	377	353	-246	-241	734	736	8	71	742	807
Depreciation and impairments	250	262	39	39	65	56	-	-	354	357	-	-	354	357
Own work capitalised	-304	-315	-6	-7	-137	-121	-	-	-447	-443	272	252	-175	-191
Total operating expenses	1,175	1,185	87	90	450	421	-313	-318	1,399	1,378	-72	11	1,327	1,389
Operating profit	416	460	21	27	-39	-19	-	-	398	468	112	-11	510	457
Net finance income/expenses	-105	-110	-8	-11	39	39	-	-	-74	-82	-19	13	-93	-69
Share in results of associates and joint ventures after tax	1	1	-	-	-1	1	-	-	-	2	-	-	-	2
Tax	-78	-88	-3	-4	-4	-9	1	-	-84	-101	-10	-1	-94	-102
Profit after tax	234	263	10	12	-5	12	1	-	240	287	83	1	323	288
Segment assets and liabilities														
Total assets	6,415	6,260	514	518	2,619	2,645	-1,876	-1,875	7,672	7,548	-	-	7,672	7,548
Non-consolidated investments in associates	-	-	-	-	9	31	-	-	9	31	-	-	9	31
Non-consolidated investments in joint ventures	2	1	-	-	-	-	-	-	2	1	-	-	2	1
Liabilities (non-current and current)	4,507	4,386	245	245	2,096	2,202	-2,755	-2,660	4,093	4,173	-	-	4,093	4,173
Other segment items														
Investments in property, plant and equipment	407	449	28	28	135	79	-	-	570	556	-	-	570	556
Number of permanent staff at end of year	3,179	3,360	293	286	2,405	2,302	-	-	5,877	5,948	-	-	5,877	5,948

The profit after tax for 2014, like that for 2013, is almost entirely attributable to the shareholders of Alliander N.V.

Reclassification to reported and incidental items

The reclassification affecting reported and incidental items concerns the reconciliation of the periodical management reports with the published financial reports. For external reporting, the amount of capitalised own production of €272 million (2013: €312 million) included in purchase costs and costs of raw materials and consumables is eliminated. The amount of €352 million is made up of the aforementioned capitalised production plus the movements in the carrying amounts of the CDS and the associated provision (€80 million net).

The incidental items are not included in the periodical management reports either but are reported separately. For the purposes of reconciliation with the external reporting (column headed 'Reported'), the incidental items should be included. Disclosures relating to the incidental items can be found in [article incidental items](#) of the annual report.

Segment assets

The amounts in the eliminations column against total assets mainly concern the eliminations of the investments in subsidiaries Liander and Endinet. The eliminations against the liabilities relate to the current-account positions between the subsidiaries and Alliander. Within the Alliander group, there are group financing arrangements, involving central administration of external accounts. All the subsidiaries maintain a current account with Alliander. There are no assets or equity and liabilities that are not allocated.

Geographical segmentation

€ million	External revenue		Property, plant and equipment		Intangible assets		Non-consolidated associates and joint ventures	
	2014	2013	2014	2013	2014	2013	2014	2013
The Netherlands	1,804	1,813	6,178	5,985	321	323	11	32
Rest of the world	33	33	40	27	1	-	-	-
Total	1,837	1,846	6,218	6,012	322	323	11	32

The rest of the world category relates entirely to the activities of Alliander AG in Germany (public lighting and network operation).

Note 3 Property, plant and equipment

€ million	Land and buildings	Networks	Other plant and equipment	Assets under construction	Total
As at 1 January 2013					
Historical cost	249	8,780	1,271	206	10,506
Accumulated depreciation and impairments	-118	-3,794	-773	-	-4,685
Carrying amount as at 1 January 2013	131	4,986	498	206	5,821
Movements 2013					
Investments	1	23	104	442	570
Divestments	-	-17	-8	-1	-26
Depreciation	-6	-227	-89	-	-322
Impairments	-6	-	-1	-	-7
Reclassification to assets held for sale	-13	-9	-	-	-22
Transfers and other movements	-1	388	32	-421	-2
Total	-25	158	38	20	191
As at 31 December 2013					
Historical cost	207	8,776	1,364	226	10,573
Accumulated depreciation and impairments	-101	-3,632	-828	-	-4,561
Carrying amount as at 31 December 2013	106	5,144	536	226	6,012
Movements 2014					
Investments	1	33	76	460	570
Divestments	-5	-12	-7	-5	-29
Depreciation	-5	-235	-90	-	-330
Reversal impairments	-	-	1	-	1
Deconsolidation CDMA	-	-	-16	-	-16
Investment in joint operation CDMA	-	-	9	-	9
Transfers and other movements	24	332	7	-362	1
Total	15	118	-20	93	206
As at 31 December 2014					
Historical cost	247	9,447	1,383	319	11,396
Accumulated depreciation and impairments	-126	-4,185	-867	-	-5,178
Carrying amount as at 31 December 2014	121	5,262	516	319	6,218

Investments

Capital expenditure on property, plant and equipment totalled €570 million (2013: €570 million). This includes an amount of €3 million (2013: nil) for capitalised construction period interest relating to the redevelopment of the site in Duiven and the construction of a heat transmission pipeline by Indigo.

For disclosures regarding CDMA, see [note \[5\]](#).

New consolidations

There were no acquisitions in 2014.

Divestments

Divestment in 2014 related to decommissioning of network assets and other plant and equipment and sales of buildings and land.

Reclassification to assets held for sale

For details of this item, reference is made to [note \[33\]](#).

Impairments

Impairment tests were carried out at year-end for the various assets concerned. In almost all cases, the asset's value in use was taken as the basis for determining the recoverable amount. The present value of projected future cash flows relating to the assets, based on the most recent business plans, was calculated and compared with the carrying amount. For calculating the value in use, Alliander uses discount rates that take into account the risk profile of the assets. Alliander applied a discount rate before tax of 5.6% in the 2014 financial year (2013: 5.6%) for its activities in the unregulated domain, compared with a discount rate in the regulated domain of 7.7% (2013: 8.1%). For further disclosures, see [note \[4\]](#).

The reversal of the impairment losses recognised in 2014, amounting to €1 million, relates to a heat transport pipeline. The difference between the value in use and carrying amount of this asset, incidentally, is minimal, with the result that changes in the estimates and assumptions used can quickly have a material effect on the outcome of the impairment test calculation. No impairment losses were recognised in 2014. The impairment losses incurred in 2013 relate to a part of the buildings and land on Spaklerweg, Amsterdam (€6 million) and to a heat transport pipeline under construction in the Nijmegen region (€1 million). For more information regarding Spaklerweg, see [note \[33\]](#).

Cross-border lease transactions

In the period 1998 to 2000, subsidiaries of Alliander N.V. (since 1 July 2010 also including Endinet) entered into US cross-border leases for networks, in the form of LILO (lease-in lease-out) and SILO (sale-in lease-out) structures.

There were no changes in the existing CBL portfolio in 2014. In 2013 three of the cross-border leases were terminated early in consultation with the US investor involved. These were the leases on the gas networks of the former NRE, GGR and VNB in the provinces of Noord-Brabant and Gelderland. The ending of these leases has had the effect of reducing the total net carrying amount of the assets covered by cross-border leases by €300 million, the related investments by \$800 million, the strip risk by \$70 million and the security provided in the form of letters of credit by \$62 million. The figures quoted are relative to the reported amounts as at year-end 2012.

The four transactions currently remaining relate to gas networks in Friesland, Gelderland, Flevoland, Noord-Holland and Utrecht, district heating networks in Almere and Duiven/ Westervoort and the electricity network in the Randmeren region. The networks have been leased for a long period to US parties (head lease), which have in turn subleased the assets to the various Alliander subsidiaries (sublease). At the end of the sublease there is the option of purchasing the rights of the American counterparty under the head lease, thus ending the transaction. The terms agreed for the subleases expire between 2015 and 2028. The fees earned on the cross-border leases were recognised in the year in which the transaction in question was concluded.

There are conditional and unconditional contractual rights and obligations relating to the cross-border leases. In the case of one transaction, security has been provided in the form of mortgages and pledges in connection with the liabilities entered into on parts of the networks.

The total net carrying amount of the networks covered by cross-border leases at year-end 2014 was approximately €1,100 million (2013: €1,100 million). At the end of 2013, a total of \$3,200 million (2013: \$3,100 million) was held on deposit with several financial institutions or invested in securities in connection with these transactions.

Since no powers of disposal exist over the majority of the assets concerned and associated liabilities, they are not regarded as assets and liabilities of Alliander and the respective amounts are not recognised in the consolidated financial statements of Alliander. The assets over which Alliander does have powers of disposal are recognised as financial assets. The associated lease obligations are recognised in finance lease liabilities.

At the end of 2014, the 'strip risk' (the portion of the 'termination value' - the possible compensation payable to the American counterparty in the event of premature termination of the transaction - which cannot be settled from the deposits and investments held for this purpose) for all transactions together was \$194 million (2013: \$278 million). Security in the form of letters of credit is now provided by Alliander to the investor concerned in the case of just one transaction, the amount concerned being \$5 million (2013: \$6 million). The number and size of the letters of credit to be issued depends partly on Alliander's credit rating.

In connection with the implementation of the Independent Network Operation Act, the heating networks belonging to Liander Infra Oost N.V. that had been covered by a cross-border lease were subleased in mid-2008 to N.V. Nuon Warmte, part of N.V. Nuon Energy. These operating leases have a term of 12.5 years (term runs to 31 December 2020). The total carrying amount of the subleased heating networks and associated meters as at 31 December 2014 was €98 million (2013: €105 million).

On 2 January 2015, part of the transaction entered into by the former company ENW in 1998 for the gas distribution systems in Amsterdam was terminated on the contractually agreed date of the option. As a consequence, the total net carrying amount of the assets covered by cross-border leases reduced by €200 million, the related investments by \$200 million, the strip risk by \$0.1 million and the security provided in the form of letters of credit by \$0.5 million. The figures quoted are relative to the reported amounts as at year-end 2014.

Note 4 Intangible assets

Intangible assets

€ million	Goodwill	Other intangible assets	Total
As at 1 January 2013			
Historical cost	500	7	507
Impairment	-187	-	-187
Carrying amount as at 1 January 2013	313	7	320
Movements 2013			
Investments	-	5	5
Depreciation	-	-2	-2
Total	-	3	3
As at 31 December 2013			
Historical cost	500	12	512
Accumulated amortisation and impairments	-187	-2	-189
Carrying amount as at 31 December 2013	313	10	323
Movements 2014			
Investments	1	1	2
Deconsolidation CDMA	-	-5	-5
Investments in joint operations CDMA	-	3	3
Depreciation	-	-1	-1
Total	1	-2	-1
As at 31 December 2014			
Historical cost	501	11	512
Accumulated amortisation and impairments	-187	-3	-190
Carrying amount as at 31 December 2014	314	8	322

The investment in goodwill in 2014 relates to the acquisition of the gas distribution network in Heinsberg. In December 2013, Alliander AG reached agreement with EWV Energie- und Wasserversorgung GmbH on the purchase of the gas distribution network in the municipality of Heinsberg with effect from 1 January 2014. The relevant concession was acquired in 2012. The purchase price for the network, which was paid at the beginning of January 2014, was €10 million. The transaction included €1 million in respect of goodwill; this has been allocated to the Other segment. See also [note \[1\]](#).

The investment in other intangible assets in 2014 relates to an additional purchase price connected with the purchase of a license for a dedicated mobile telecommunications network for energy networks.

For disclosures regarding the movements in 2014 relating to CDMA, see [note \[5\]](#).

The investment in 2013 relates to the purchase of a licence connected with the establishment of a dedicated mobile telecommunications network for energy networks. The cost of the licence will be amortised over the years up to the end of 2020. The other intangible assets are amortised over a period of 20 years.

Goodwill allocation by segment

€ million	2014	2013
Liander	277	277
Endinet	36	36
Other	1	-
Total	314	313

Of the total amount of goodwill allocated to Liander, €209 million relates to electricity and gas networks and dates from the contribution of the networks when n.v. Nuon was created in 1999. The remaining €68 million is made up of €61 million relating to the acquisition of Endinet in 2010 and €7 million relating to Stam. The goodwill allocated to Endinet (€36 million) mainly relates to synergy and outperformance effects. The goodwill allocated to the Other segment relates to network activities in Germany.

At year-end 2014, impairment tests were performed on the carrying amounts of the networks of Liander and Endinet and the German networks, including the associated goodwill recognised. The value in use was taken as the basis for this calculation. The value in use was measured on the basis of the most recent business plans.

In the case of Liander and Endinet, a discount rate before tax of 5.6% (2013: 5.6%) was used, based on the calculation method of the ACM. The main assumptions on which these business plans are based are the number of connections, the most recent tariff estimates and estimates of operating expenses and other costs. To a large extent, these assumptions are based on past experience, coupled with the latest information on tariff regulation. The business plans cover a period of five years and the terminal value is calculated using the projected cash flows at the end of that period. A zero growth rate has been applied. The terminal value for the regulated activities is based on achieving the 'reasonable return' that a network operator can expect to achieve on its standardised asset value. Where appropriate, account is also taken of temporary or structural synergistic effects or other departures from the reasonable return. There is such a margin between the value in use and the carrying amount of the Liander networks that the sensitivity to changes in the estimates and assumptions used is limited. In the case of Endinet on the other hand, there is not such a difference but, if the activities of Endinet are integrated into Liander with effect from 1 July 2015, the ability to take advantage of synergistic effects will create a considerable margin.

With respect to the networks in Germany, the applied discount rate was derived from the method of calculation used by the German regulator, giving a discount rate before tax of 6.0%. Otherwise the underlying assumptions were the same as for Liander and Endinet. The result of the impairment test on the German networks showed that there was very little difference between the value in use and the carrying amount. Like the network activities in the Netherlands, the German network activities are also regulated. Changes in costs, discount rates and investments are reflected in the tariffs. As a result changes in the estimates and assumptions used have a limited effect on the outcome of the impairment test calculation.

There were no impairment losses in 2013 or 2014.

Note 5 Investments in associates and joint ventures

Investments in associates and joint ventures

€ million	Associates		Joint ventures		Total	
	2014	2013	2014	2013	2014	2013
Carrying amount as at 1 January	31	28	1	-	32	28
Movements						
Investments	3	1	-	-	3	1
Share in results	-1	1	1	1	-	2
Divestments	-23	-	-	-	-23	-
Currency translation differences and other movements	-1	1	-	-	-1	1
Total	-22	3	1	1	-21	4
Carrying amount as at 31 December	9	31	2	1	11	32

The divestments relate to the sale of the non-controlling interest in KEMA to DNV GL Group.

In the case of a number of associates, Alliander's interest is less than 20%. For details, see the [list of principal subsidiaries](#), associates and joint ventures in article 'Significant subsidiaries and participations'. In view of the degree of control in relation to the associates concerned, however, it has been determined that there is significant influence and the investments have been included in the investments in associates.

Share in results of associates and joint ventures

€ million	Associates		Joint ventures		Total result	
	2014	2013	2014	2013	2014	2013
Share in						
Profit or loss from continued activities	-1	1	1	1	-	2
Profit or loss from discontinued activities	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-1	1	1	1	-	2

Alliander has concluded arrangements with associates and joint ventures for granting finance and credit facilities totalling €28 million as at year-end 2014 (2013: €18 million). Under these facilities, an amount of €22 million was drawn down as at 31 December 2014 (2013: €23 million). The arrangements include convertible loans of €5 million (2013: €2 million). The finance also extends to current-account liabilities of €27 million as at year-end 2014 (2013: €8 million) for a current account facility in this context. The loan granted to Innax Energie Management BV in 2014 is secured by a pledge valued at €1.6 million.

Note on CDMA joint operation

CDMA balance sheet

€ million	Balance sheet as at 6 October 2014	Deconsolidation as at 7 October 2014	Investment in joint operation as at 7 October 2014	Investment in joint operation as at 31 December 2014
Assets				
Non-current assets				
Property, plant and equipment	16	-16	10	19
Intangible assets	5	-5	3	3
Total non-current assets	21	-21	13	22
Current assets	9	-9	5	2
Total assets	30	-30	18	24
Equity and liabilities				
Total equity	9	-9	6	6
Non-current liabilities	-	-	-	11
Short-term liabilities	21	-21	12	7
Total equity and liabilities	30	-30	18	24

CDMA income statement

€ million	1 January - 6 October 2014	7 October 2014 - 31 December 2014	Total 2014
Operating income	7	1	8
Operating expenses	-6	-1	-7
Operating profit	1	-	1
Financial income and expenses	-1	-	-1
Profit before tax	-	-	-
Tax	-	-	-
Profit after tax	-	-	-

CDMA Utilities B.V. was until 6 October 2014 a wholly-owned subsidiary of Alliander. On 7 October 2014, Eneco acquired a 50% interest in the voting shares and a 40.72% interest in the profit shares, for a payment of €4 million. In the period up to 6 October 2014, CDMA was financed by Alliander via a current account facility. Upon Eneco's involvement as shareholder, the current-account finance was replaced by shareholder loans of €11 million from Alliander and €8 million from Eneco. The loans have been contracted for a period of three years at an interest rate of 1.4%, based on the mid-swap rate, Alliander's spread and a risk markup.

The terms of the shareholder agreement mean that CDMA is classified as a joint operation. The agreement also stipulates that the two shareholders are separately accountable for the loans which they have each granted. There are no provisions governing the other balance sheet items. As far as the Alliander N.V. consolidation is concerned, this means that, with effect from 7 October 2014, Alliander recognises 100% of the shareholder loan which it has granted in the consolidation, ignores the Eneco loan in its entirety and recognises all other balance sheet and income statement items in proportion to the profit share interest (59.28%). As already mentioned, up to 6 October 2014, CDMA was included 100% in the Alliander consolidation.

Note 6 Available-for-sale financial assets

Available-for-sale financial assets

€ million	
Carrying amount as at 1 January 2013	314
Movements 2013	
Currency translation differences	-12
Fair value movements	-5
Total	-17
Carrying amount as at 31 December 2013	297
Movements 2014	
Currency translation differences	37
Fair value movements	25
Total	62
Carrying amount as at 31 December 2014	359
Non-current portion of held-for-sale financial assets	200
Current portion of held-for-sale financial assets	159

Available-for-sale financial assets as at year-end 2014 comprises investments in debt securities issued by financial institutions which serve to cover obligations arising from two cross-border lease contracts. Part of the investment portfolio relating to the cross-border lease contracts consists of a written credit default swap (CDS). This instrument is an embedded derivative that is recognised separately in derivatives in the balance sheet and measured at fair value, see [note \[8\]](#). The part of the available-for-sale financial assets related to the cross-border lease contracts had a carrying amount as at year-end 2014 of €200 million (2013: €161 million) and serves to cover both related lease obligations and the aforementioned CDS. The carrying amount of the related lease obligations was €144 million at year-end 2014 (2013: €126 million).

Additionally, the item included investmentst as at year-end 2013 (€136 million) that were not related to the cross-border lease contracts. In connection with their remaining term to maturity (June 2015), these assets were reclassified in 2014 as other financial assets – current portion – see [note \[7\]](#). The carrying amount of these current available-for-sale financial assets as at year-end 2014 was €159 million).

Note 7 Other financial assets (including current portion)

Other financial assets

€ million	Loans, receivables and other
Carrying amount as at 1 January 2013	121
Effective interest rate 2013	1%
Movements 2013	
New receivable	1
Loans granted	203
Loans and interest repaid	-200
Total	4
Carrying amount as at 31 December 2013	125
Effective interest rate 2014	1%
Movements 2014	
New receivable	532
Loans granted	7
Loans and interest repaid	-596
Total	-57
Carrying amount as at 31 December 2014	68
Non-current portion of other financial assets	43
Current portion of other financial assets	25

At the end of 2014, in the same way as the previous year, the carrying amount of the other financial assets comprised receivables, loans and capitalised costs denominated in euros. The loans granted and repaid in 2013 and 2014 were mainly in the form of short-term deposits. The new receivable in 2014 is made up of €17 million receivable from the City of Amsterdam relating to the Spaklerweg site and €25 million in short-term deposits. In 2013, this item includes an amount of €33 million received in respect of an interest-bearing receivable from the former shareholders of Endinet N.V.

Note 8 Derivatives

Derivatives

€ million	Current assets		Non-current assets		Current liabilities		Non-current liabilities	
	2014	2013	2014	2013	2014	2013	2014	2013
Trading derivatives								
Other derivatives	-	17	-	-	62	-	-	6
Total	-	17	-	-	62	-	-	6
Cash flow hedges								
Foreign exchange contracts	2	2	-	-	18	-	-	-
Total	2	2	-	-	18	-	-	-
Carrying amount as at 31 December	2	19	-	-	80	-	-	6

Derivatives are measured at fair value. As at year-end 2013, derivatives held for trading included a credit default swap in non-current liabilities, forming part of the investments in financial assets.

The credit default swap derivative instrument has been part of two cross-border lease contracts since 2005. The CDS is a product which insures the credit risk on an underlying portfolio made up of almost 100 reference bonds. The instrument has a maturity of 10 years (maturing at the end of June 2015) and 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. The greater part of this provision came from the fair value of the CDS (which was negative), the remainder being made up of an additional provision up to the amount of the maximum risk – see [note \[16\]](#). This approach was maintained up to year-end 2013, based on the expected risks.

In December 2014, the fair value of the CDS was \$18 million (€15 million) and the additional provision amounted to \$153 million (€127 million) on the basis of this methodology. As at year-end 2014, the remaining term to maturity of the CDS was only six months and 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 past year to such an extent that it is not expected that the maximum risk relating to the entire product will materialize. 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.

The fair value based on a valuation by an external party amounted in December 2014 \$18 million (€15 million). 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) was assessed at year end 2014. The difference of \$57 million (€47 million) has been recognised in operating expenses. The net effect is that with respect to the CDS in 2014 a release of €80 million has been recognised and set against the operating expenses.

In connection with the remaining term to maturity of the CDS (June 2015), it was reclassified in 2014 to the current portion of derivatives.

Finance was raised in 2014 under the Euro Commercial Paper Programme, denominated in sterling (GBP). In order to eliminate currency risks, the sterling amount was immediately converted into euros by means of foreign exchange swaps. The carrying amount of this short-term derivative as at year-end 2014 amounted to €2 million (2013: nil). The current liabilities as at year-end 2014, amounting to €18 million (2013: current assets of €2 million), relate to three FX swaps hedging the currency risk on the current portion of the available-for-sale financial assets.

Also, as at year-end 2013, the derivatives held for trading purposes included in the assets and liabilities are the put and call options relating to KEMA, totalling €17 million and €0.2 million, respectively. For more detailed information concerning the settlement of these options, reference is made to [note \[22\]](#).

Note 9 Inventories

Inventories

€ million	2014	2013
Raw materials and consumables	33	30
Finished goods	7	7
Carrying amount as at 31 December	40	37

The impairments of inventors in 2014 were almost nil (2013: €2 million).

Note 10 Trade and other receivables

Trade and other receivables

€ million	2014	2013
Trade receivables	70	86
Impairments of trade receivables	-10	-13
Trade receivables net	60	73
Other receivables	22	25
Accrued income and prepayments	176	184
Carrying amount as at 31 December	258	282

At the end of 2014, impairments of trade receivables totalled €10 million (2013: €13 million). The impairment loss on trade receivables recognised in the income statement in 2013 amounted to €1 million (2013: €7 million). For further information, see the credit risk section of [note \[34\]](#).

Note 11 Cash and cash equivalents

Cash and cash equivalents

€ million	2014	2013
Cash held at banks	10	8
Deposits	157	147
Carrying amount as at 31 December	167	155

The effective interest rate on cash and cash equivalents ranged from 0.00% to 0.27% (2013: 0.05% to 0.66%). Cash and cash equivalents are held almost entirely in euros. In 2014, there were no amounts of cash and deposits which were not at the unrestricted disposal of Alliander (2013: nil).

Note 12 Equity

Authorised share capital

The company's authorised capital is divided into 350 million shares of €5 nominal value. As at year-end 2014, 136,794,964 shares were in issue (2013: 136,794,964).

Subordinated perpetual bond

On 27 November 2013, Alliander issued a subordinated perpetual bond loan with a nominal amount of €500 million and a coupon of 3.25% at an issue price of 99.434%, raising an amount of €497 million. The directly attributable costs of €1 million were deducted from this amount, so that €496 million was added to equity. This subordinated perpetual bond loan is treated as equity. Alliander does not have any contractual obligation to repay the loan. Any periodical payments on the loan are conditional and depend on payments to shareholders. As and when resolutions are passed making distributions to shareholders, the Management Board will also pay any arrears of the contractual coupon interest to the holders of the subordinated perpetual bond loan out of other reserves. The annual amount of the interest payable is €16 million.

Coinciding with this issue, the subordinated perpetual bond loan issued by Alliander on 4 November 2010, with a carrying amount of €494 million and a coupon of 4.875%, was redeemed in two tranches (27 November 2013 and 23 December 2103). The cost of the discount on the issue plus issuing costs, totalling €18 million, and the payment of €35 million made to the bondholders in 2013 has been charged to other reserves (a total of €42 million after tax).

Hedge reserve

Alliander uses cash flow hedging, involving both interest rate swaps and currency hedges. Further information can be found in the notes on risks and financial instruments.

The carrying amount of the hedge reserve as at year-end 2014, after deduction of deferred tax, was almost nil and relates to an interest rate hedge on the EMTN issue in 2004. As at year-end 2013, the carrying amount was €0.4 million. This cash flow hedge terminates on maturity of the Euro Medium Term Notes concerned ([note \[34\]](#)).

Revaluation reserve

The revaluation reserve is connected with the available-for-sale financial assets and to a small extent with a defined-benefit pension plan for employees of our German operations (€0.7 million after tax). The increase of €18 million in the revaluation reserve in 2014 is accounted for by the increasing value of the available-for-sale financial assets.

The hedge reserve, the revaluation reserve and the subordinated perpetual bond loan are not freely distributable.

Non-controlling interest

On 10 July 2012, Alliander acquired a 95% interest in Indigo B.V. This company is a partnership between Alliander and the City of Nijmegen (which has an interest of 5%) established with the object of constructing a heat transmission pipeline from the regional waste-to-energy plant Afvalverwerking Regio Nijmegen (ARN) to supply the district heating network to be built by Nuon Energy. As at the end of the reporting period, shareholders' equity of Indigo BV amounted to €6 million. In accordance with the basis of Alliander's consolidation, Indigo BV has been consolidated in full with separate disclosure of a non-controlling interest in the consolidated equity. However, the amount of this non-controlling interest, at €0.3 million (2013: €0.2 million), means that it is not visibly accounted for on the face of the balance sheet as at year-end.

Note 13 Interest-bearing debt

Interest-bearing debt

€ million	2014	2013
Carrying amount as at 1 January	1,895	1,896
Movements		
New loans	157	177
Loans repaid	-284	-181
Currency translation differences and other movements	7	3
Total	-120	-1
Carrying amount as at 31 December	1,775	1,895

The carrying amount of the long-term interest-bearing debt, including the current portion, was as follows:

Short and long-term interest-bearing debt

€ million	Effective interest rate		Current portion		Non-current portion	
	2014	2013	2014	2013	2014	2013
Subordinated loans	8.6%	8.8%	5	4	90	92
Private and green loans	2.9%	3.0%	1	1	20	20
Euro Medium Term Notes	3.9%	3.9%	-	277	1,494	1,492
Banks	-	8.2%	-	2	-	-
Euro Commercial Paper	0.6%	-	153	-	-	-
Other	0.0%	0.0%	-	-	12	7
Carrying amount as at 31 December			159	284	1,616	1,611

Short-term interest-bearing debt, amounting to €159 million as at year-end 2014 (2013: €284 million), is made up of the current portion of the long-term debt and the Euro Commercial Paper.

As at year-end 2014, a carrying amount of €1,494 million (face value €1,500 million) had been issued under the EMTN programme. The notes issued under the EMTN programme are listed on the Amsterdam and Luxembourg stock exchanges. At the end of 2014, €153 million in short-term finance had been raised under the ECP programme (2013: nil).

Subordinated loans

These loans carry interest at rates of 8% to 10%. These loans are subordinated to other liabilities.

Maturities of interest-bearing debt

€ million	2014	2013
Less than 1 year	159	284
Between 1 and 2 years	424	6
Between 2 and 3 years	5	424
Between 3 and 4 years	6	5
Between 4 and 5 years	306	6
Over 5 years	875	1,170
Carrying amount as at 31 December	1,775	1,895

Note 14 Deferred income

Deferred income

€ million	2014	2013
Carrying amount as at 1 January	1,555	1,530
Contributions received	80	82
Amortisation recognised as income	-63	-61
Reclassification and other movements	-	4
Carrying amount as at 31 December	1,572	1,555

Deferred income relates to construction contributions, investment grants and subsidies received. The amortisation periods of the construction contributions, investment grants and subsidies are equal to the depreciation periods of the underlying assets (ranging from 10 to 50 years).

Note 15 Provisions for employee benefits

Provisions for employee benefits

€ million	Current portion		Non-current portion		Total	
	2014	2013	2014	2013	2014	2013
Long-term employee benefits						
Post-employment benefits	1	2	1	2	2	4
Other long-term employee benefits	12	12	41	39	53	51
Termination/reorganisation benefits	13	10	7	12	20	22
Total	26	24	49	53	75	77
Short-term employee benefits						
Short-term employee benefits	41	41	-	-	41	41
Carrying amount as at 31 December	67	65	49	53	116	118

Post-employment benefits

Alliander has various pension and similar plans for its current and former employees. The majority of the pension liabilities are insured with ABP. In addition to this main pension plan, Alliander has other defined benefit and defined contribution plans that are not significant in size. The ABP pension scheme is classed as a multi-employer defined benefit plan. A proportionate part of the gross obligation, plan assets and costs associated with the plan should be recognised in Alliander's financial statements. However, as Alliander does not have access to the required information, the pension plan is treated as a defined contribution plan. Where there is an agreement for a multi-employer plan that specifies how a surplus is distributed to the participants or a deficit is to be financed and where the plan is accounted for as a defined contribution plan, an asset or liability arising from the agreement is recognised in the balance sheet. The resulting gains or losses are recognised in the income statement. The pension plan administered by ABP has none of the above features. As a result, no asset or liability has been recognised in the balance sheet. The same applies to the pensions administered by BPF Bouw and Pensioenfondsvoor Metaal en Techniek.

Prompted by the deterioration of the funding ratio in 2008, ABP introduced a recovery plan in 2009. At the start of each year ABP evaluates the progress of the recovery on the basis of the actual funding ratio at the end of the preceding year. The funding ratio as at year-end 2014 was 101.1% (2013: 105.9%). The pension contribution rate in 2014 was 21.6% of pensionable salaries. The pension contribution rate for 2015 is 19.6%. The main factor behind the lower rate is the absence of the recovery supplement, resulting in a decline of 3 percentage points. The other factors affecting the level of contributions include:

- The non-recurring costs for extending the duration of the existing benefits to cover the gap between the age of 65 and the new state pension (AOW) retirement age. This is part of the new pension scheme 2015;
- Changes in the membership profile;
- Increasing life expectancy.

Some factors lead to an increase in contributions while others mean a lower contribution rate. Taking all the factors together, there is a drop of 2 percentage points. Alliander's relative share in the ABP pension scheme based on numbers of participants is approximately 0.5%. The pension contributions payable in 2015 for the multi-employer plans are expected to amount to €59 million.

In addition to the above multi-employer pension plans in the Netherlands, Alliander has two defined benefit plans relating to subsidiaries in Germany, although these are not of material importance. These plans are accounted for in accordance with the amended IAS 19. This means that, with effect from 2013, actuarial gains and losses and remeasurements are recognised directly. Because of the small amounts involved, however, this is not visible in the consolidated financial statements.

Post-employment benefits essentially concern the medical benefits scheme for retired employees. This scheme has not been transferred to an external insurance company or pension fund. The post-employment benefits provision totalled €2 million at the end of 2014 (2013: €4 million). The provision for post-employment benefits was made up as follows:

Post-employment benefits

€ million	Current portion		Non-current portion		Total	
	2014	2013	2014	2013	2014	2013
Liability for pensions and post-employment healthcare insurance	1	2	1	2	2	4
Actuarial value of obligations as at 31 December	1	2	1	2	2	4

Other long-term employee benefits

Alliander offers a number of other long-term employee benefits. The provision covers the following types of benefit:

- jubilee benefits; this provision covers the jubilee benefits paid to employees after 10, 20, 30, 40 and 50 years of service and the payment on reaching retirement age;
- long-term sickness benefits; this benefit covers the obligation to continue paying all or part of an employee's salary during the first two years of sick leave;
- incapacity benefit; Alliander bears the risk for benefits payable under the Work and Income (Ability to Work) Act (WIA) – the relevant provision covers the obligations towards Alliander employees who become wholly or partially unfit for work;
- unemployment benefits; Alliander is the risk-bearer within the meaning of the Unemployment Act (WW); if an Alliander employee becomes unemployed, the unemployment benefit is borne by Alliander for a period of between three months and 38 months, depending on the employee's employment history;
- reduction of working hours of older employees; in the light of legislation on early retirement, a transitional scheme was agreed in the 2005 Collective Labour Agreement under which older employees could reduce their working hours in the future. The table below shows the composition of other long-term employee benefits.

Other long-term employee benefits

€ million	Current Portion		Non-current portion		Total	
	2014	2013	2014	2013	2014	2013
Long-service benefits	2	2	31	27	33	29
Long-term sickness leave and disability benefits	5	5	5	6	10	11
Unemployment benefits	2	2	2	2	4	4
Reduction of older employees' working hours	2	2	1	2	3	4
Other	1	1	2	2	3	3
Carrying amount as at 31 December	12	12	41	39	53	51

Termination / reorganisation benefits

This provision covers payments and/or supplements to benefits paid to employees whose employment contract has been or probably will be terminated. These benefits and supplements are based on the Social Plan operated by Alliander and individual arrangements. The Social Plan is periodically renegotiated and agreed. In 2014, an amount of €21 million was added to the reorganisation provision (2013: €16 million). The provision for termination payments/reorganisations totalled €20 million at the end of 2014 (2013: €22 million).

Movements in provisions for long-term employee benefits

The following table shows the movements in the provisions for post-employment benefits, other long-term employee benefits and the termination benefits/ restructuring provision.

Movements in provisions for employee benefits

€ million	Post-employment benefits	Other long-term employee benefits	Termination/reorganisation benefits	Total
Carrying amount as at 1 January 2013	5	55	21	81
Movements 2013				
Released	-	-4	-6	-10
Added	-	6	16	22
Interest expenses	-	1	-	1
Benefits paid	-2	-7	-9	-18
Remeasurement	1	-	-	1
Total	-1	-4	1	-4
Carrying amount as at 31 December 2013	4	51	22	77
Movements 2014				
Released	-1	-3	-12	-16
Added	-	10	21	31
Interest expenses	-	1	-	1
Benefits paid	-2	-5	-11	-18
Total	-3	3	-2	-2
Carrying amount as at 31 December 2014	1	54	20	75

The main assumptions used in determining the provisions are given below:

Assumptions

	2014	2013
Mortality tables	generation 2010-2060 layer 2014	generation 2010-2060 layer 2013
Discount rates	0.44%-2.29%	0.63%-3.49%
Expected future salary increases	2.5%	2.5%
Expected increase in incapacity benefits	2.0%	2.0%

Short-term employee benefits

Short-term employee benefits were €41 million at the end of 2014 (2013: €41 million) and relate to all obligations to employees, other than the current portion of long-term employee benefits, that are expected to be settled within 12 months after the balance sheet date. Short-term employee benefits include salaries still to be paid, accrued holiday entitlement, bonuses and other staff costs still to be paid.

Note 16 Other provisions

Other provisions

€ million	Environmental restoration	Other provisions	Total
Carrying amount as at 1 January 2013	7	67	74
Movements 2013			
Added	-	56	56
Utilised	-	-1	-1
Reclassified to current liabilities	-5	-	-5
Total	-5	55	50
Carrying amount as at 31 December 2013	2	122	124
Movements 2014			
Added	-	2	2
Utilised	-1	-4	-5
Released	-1	-127	-128
Currency translation differences and other movements	-	8	8
Total	-2	-121	-123
Carrying amount as at 31 December 2014	-	1	1

The movements in other provisions relate in particular to the reservation set aside in connection with the credit default swap (CDS). In 2014, there was a reduction of €8 million in the negative fair value of the CDS and a €16 million loss on exchange, which were taken to income, as a result of which the amount added to the provision for the CDS totalled €8 million. As at year-end 2014, an amount of €127 million was released from the CDS provision. For further details on the CDS, reference is made to [note \[8\]](#).

The other provisions as at year-end 2014 amounted to €1 million and related to loss-making contracts among other things (2013: €1 million).

Note 17 Deferred tax

Deferred tax assets were as follows:

Deferred tax assets

€ million	2014	2013
Differences in valuation of property, plant and equipment	225	245
Tax losses carried forward	-	4
Other differences	-7	-5
Carrying amount as at 31 December	218	244

Other includes, among other things, differences in the reported amounts of derivatives and provisions and the accounting treatment for tax purposes.

Gross movement in deferred tax assets

€ million	Property, plant and equipment	Tax losses carried forward	Other	Total
Carrying amount as at 1 January 2013	280	55	-	335
Movements 2013				
Added directly via equity	-	-	8	8
Realised temporary differences	-35	-	-13	-48
Realised tax loss carryforwards	-	-51	-	-51
Total	-35	-51	-5	-91
Carrying amount as at 31 December 2013	245	4	-5	244
Movements 2014				
Added directly via equity	-	-	-7	-7
Realised temporary differences	-20	-	5	-15
Realised tax loss carryforwards	-	-4	-	-4
Total	-20	-4	-2	-26
Carrying amount as at 31 December 2014	225	-	-7	218

The deferred tax assets of €225 million in respect of property, plant and equipment (2013: €245 million) are the result of differences between the carrying amounts in the financial statements and the tax base agreed with the Dutch Tax Administration as at 1 January 1998, the year in which Alliander became liable to corporate income tax. The carrying amounts of the property, plant and equipment agreed with the Dutch Tax Administration as at 1 January 1998 have depreciation periods extending ahead as far as 2030. Realisation of the temporary difference relating to these assets is therefore spread out over this period.

Another factor in the past was the application of the accelerated depreciation tax break, leading to differences between reported carrying amounts and tax base amounts. The lower figure for the realisation of temporary differences in 2014 compared with 2013 on the property, plant and equipment is largely a consequence of the discontinuation in 2014 of the temporary accelerated depreciation facility available in 2013.

The deferred tax asset of €4 million as at year-end 2013 deriving from tax loss carryforwards was realised in full in 2014. The taxable profit of the Alliander N.V. tax group (all the Dutch entities) for 2014 gives rise to a corporate income tax payment liability of €74 million, set against the deferred tax asset.

The drop of €26 million in the deferred tax asset is the combined effect of the movement in deferred taxes recognised in the income statement (€15 million) plus utilisation of tax loss carryforwards (€4 million) and an increase in the deferred tax asset (€7 million) recognised directly in equity.

There were no changes in the rates of corporate income tax in 2014. As at year-end 2014, there was an unrecognised deferred tax asset of €9 million (2013: €6 million). This is connected with tax loss carryforwards relating to our activities in Germany.

Note 18 Trade and other payables

Trade and other payables

€ million	2014	2013
Trade payables	32	21
Amounts due to construction contract customers	6	5
Other payables	65	50
Carrying amount as at 31 December	103	76

Note 19 Leases

Finance lease receivables

At year-end 2014 and 2013, Alliander had no receivables on finance leases.

Operating lease receivables

The total future minimum lease receivables from non-cancellable operating leases not shown on the face of the balance sheet are as follows:

Operating lease receivables

€ million	2014	2013
Less than 1 year	24	26
Between 1 and 5 years	99	101
Over 5 years	85	68
Total as at 31 December	208	195

At 31 December 2014, the operating leases related mainly to rental of transformers, electric vehicle charge points and the subleasing of two district heating networks to N.V. Nuon Warmte, part of N.V. Nuon Energy.

Lease payables

Finance lease liabilities

€ million	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
As at 31 December 2014				
Future minimum lease obligations	10	39	223	272
Future finance expense on finance leases	-11	-43	-73	-127
Present value of finance lease obligations	-1	-4	150	145
As at 31 December 2013				
Future minimum lease obligations	9	34	204	247
Future finance expense on finance leases	-9	-37	-74	-120
Present value of finance lease obligations	-	-3	130	127

Finance lease payables at year-end 2014 and year-end 2013 mainly related to an obligation in respect of two cross-border lease transactions.

The total future minimum lease obligations on operating leases were as follows:

Operating lease liabilities

€ million	2014	2013
Less than 1 year	20	20
Between 1 and 5 years	34	39
Over 5 years	2	-
Total as at 31 December	56	59

Alliander has operating lease payables in respect of buildings and company cars.

Note 20 Contingent assets and liabilities

Rights and obligations arising from operating leases

Please refer to [note \[19\]](#) to the consolidated financial statements for details of rights and obligations arising from operating leases.

Capital expenditure commitments

The outstanding capital expenditure commitments and other purchasing commitments at the end of the year were as follows:

Capital expenditure and other purchasing commitments

€ million	2014	2013
Capital expenditure commitments regarding property, plant and equipment	125	119
Other purchasing commitments	259	234
Total as at 31 December	384	353

In October 2014, Alliander AG reached agreement with EWV Energie- und Wasserversorgung GmbH on the purchase of the gas distribution system serving the municipality of Waldfeucht with effect from 1 January 2015. The relevant concession was acquired in May 2014. The purchase price for the network, which was paid at the beginning of January 2015, was €3 million. The concession runs for 20 years.

Contingent liabilities

Alliander was involved in a number of lawsuits at the balance sheet date, connected with normal business operations. Provisions have been recognised as necessary. Bank guarantees amounting to €0.1 million had been issued on Alliander's behalf as at year-end 2013 (2012: €0.1 million). As at year-end 2013, Alliander had also given guarantees totalling €7 million in respect of mortgages of employees. These mortgage guarantees lapsed in 2014.

With respect to the Spaklerweg disposal, it has been agreed that the city authorities will have an option expiring on 30 June 2020 to acquire part of the site and the buildings for the sum of €13 million (to be paid in instalments of €6 million in 2025 and €7 million in 2028). If the option is exercised, the premises will be handed over in 2025 and Alliander will continue to have use of them up to that date. The exercise of the option by the City of Amsterdam at some future date is not expected to affect profit or loss.

With respect to the cross-border lease commitments, securities in the form of letters of credit amounting to \$5 million (2013: \$6 million) had been issued as at year-end to cover the contingent liabilities. For further information on cross-border leases, see [note \[3\]](#).

In November 2010, Alliander issued a subordinated perpetual bond loan with a nominal value of €500 million. In the closing two months of 2013, this subordinated perpetual bond loan was redeemed. Under IFRS, an instrument of this kind qualifies as equity. It was assumed that the periodical payments made to the holders of the bonds issued in 2010 would count as deductible expenses for the purposes of corporate income tax. To date no agreement has been reached with the Dutch Tax & Customs Administration concerning the tax treatment of these loans and a formal objection is ongoing. The maximum exposure for Alliander is between €20 million and €30 million. Having consulted external experts, the Management Board decided not to recognise a provision in this respect.

In January 2014, the College of Trade and Industry (CBB) in a dispute with another network operator ruled on the definition of an electricity connection. It was concluded that certain links were no connections within the meaning of the Electricity Act 1998 and the network operator to these parties could not provide services. As of January 1, 2014 the Electricity Act 1998 has changed and these links are still under the legal definition of a connection. The Tribunal's judgment may have consequences for the network operators, including Liander and Endinet. At this time, it is uncertain whether a liability will arise.

Alliander AG has secured a number of concessions in Germany allowing the company to acquire certain electricity and gas networks in certain regions of Germany. Under one of these concessions, agreement was reached on the purchase of the gas distribution system in Waldfeucht on 1 January 2015. The successful acquisition of the remaining networks depends on reaching agreement on the purchase price, among other things. In due course, this project involves a possible total investment of around €17 million.

Alliander has taken out liability insurance in the form of a Directors and Officers policy covering the members of the Supervisory Board, the members of the Management Board, the operating company managers and other directors within the Alliander group. In addition to the cover provided by this liability insurance, the members of the Supervisory Board are also legally indemnified. As far as possible, the members of the Supervisory Board are also indemnified by Alliander subject to specific conditions and with strict limitations in respect of costs connected with legal proceedings brought under civil, penal or administrative law in which they could become involved by virtue of their membership of the Supervisory Board.

Alliander, together with its Dutch subsidiaries, forms a tax group for both corporate income tax and value added tax (VAT). Consequently, every legal entity forming part of the tax group bears joint and several liability for the tax liabilities of the legal entities included in the tax group. Alliander has also given a declaration of indemnity to its network operators under which their liability in this respect is restricted to the amount for which they themselves would be liable if a tax group did not exist.

Convertible subordinated loans were contracted with the shareholders of Alliander in the past and relate to guarantees given on the sale of non-strategic interests. On expiry of these guarantees, the loans were released to income and shares in Alliander were issued in 2006. A number of guarantees are, however, for an indefinite period; in the event that there are any subsequent claims on guarantees in the future, the shareholders concerned have a duty to surrender all or part of their shares.

In 2006, following the declaration of the nullity of a claim, a guarantee provision for the sale of associates was released to income and additional shares in Alliander were issued in 2007. The guarantees which have been given are for an indefinite period. It is therefore still possible for claims to be made on these guarantees in the future. Alliander can again also require the shareholders to surrender some or all of their shares.

Note 21 Revenue

Revenue

€ million	2014	2013
Electricity transport and connection services	1,008	1,057
Gas transport and connection services	377	393
Metering services	158	166
Operating contributions and other revenues	153	128
Total	1,696	1,744

Revenue for 2014 was down by €48 million (3%) compared with 2013, at €1,696 million. The lower figure was mainly the net effect of lower, regulated transport and connection tariffs (€65 million) for both electricity and gas and lower tariffs for metering services (€8 million) and higher other regulated income (€13 million), mainly because of increased operating contributions. Revenue from the non-regulated activities in 2014 was €12 million higher compared with the preceding year.

Note 22 Other income

Other income

€ million	2014	2013
Amortisation of construction contributions	63	61
Other income	78	41
Total	141	102

Other income in 2014 came in at €141 million (2013: €102 million). This increase is largely accounted for by the book profit on the disposal of the KEMA shares (€40 million). Apart from this, other income mainly relates to the amortisation of connection contributions from our customers (€63 million) and sundry other income, including compensation received for losses, rents and book profits on the sale of assets (€38 million). Also recognised under this heading in 2014 were the contribution from Eneco towards the CDMA start-up costs (€4 million) in prior years and the payments received from the ACM (€5 million) in connection with the outcome of disputes.

Sale of interest in KEMA

The incidental item in 2014 included in other income relates to the disposal of the 25.4% interest in KEMA to DNV GL Group, including the impairment loss recognised on the related put and call options. This transaction has been accounted for as follows:

€ million	2014
Disposal	80
Less: carrying amount interest	23
Gross book profit	57
Settlement options	17
Book profit before tax (other income)	40
Tax	5
Book profit after tax	45

The substantial-holding privilege is applicable to the gross book profit. On write-down of the options, the related deferred tax asset was released to income, producing a net book profit recognised on the sale of the interest in KEMA of €45 million.

Note 23 Purchase costs and costs of subcontracted work

Purchase costs and costs of subcontracted work

€ million	2014	2013
Grid losses	84	72
Transport capacity and restrictions	150	140
Billing and payment collection	9	26
Contractors, materials and other	163	178
Total	406	416

Purchase costs and costs of subcontracted work was down by €10 million compared with 2013, at €406 million. This was is largely due to the introduction of the new market model, which resulted in a reduction in costs of invoicing and payment collection (€17 million) and in costs of subcontractors and materials etc. (€15 million). Set against this there was an increase of €12 million in the cost of network losses (largely the net effect of the removal in 2014 of positions and adjustments in 2013 relating to prior years (€22 million) and increases in tariffs (€10 million)) and higher costs for transport capacity and restrictions, which were up by €10 million (owing to the higher tariffs charged).

Note 24 Employee benefit expenses

Employee benefit expenses

€ million	2014	2013
Salaries	344	340
Social security premiums	41	36
Pension costs: - contributions paid to multi-employer plans that are accounted for as defined-contribution plans	47	47
Termination benefit expenses	8	10
Other long-term employee benefit expenses	8	3
	16	13
Other staff costs	17	17
Total	465	453

The staff costs relating to pensions, reorganisations and other long-term employee benefits were as follows:

Employee benefit expenses for pensions, reorganisation and other long-term employee benefits

€ million	Multi-employer plans	Termination/reorganisation benefits	Other long-term employee benefits	Total
2013				
Contributions paid to multi-employer plans	47	-	-	47
Added to provision	-	16	6	22
Released from provision	-	-6	-4	-10
Interest expense	-	-	1	1
Total 2013	47	10	3	60
2014				
Contributions paid to multi-employer plans	47	-	-	47
Added to provision	-	21	10	31
Released from provision	-	-13	-3	-16
Interest expense	-	-	1	1
Total 2014	47	8	8	63

A note on the reorganisation costs is included in [note \[15\]](#) on provisions for employee benefits.

For further details of the other long-term employee benefits, reference is made to the disclosures in [note \[15\]](#). The external staff costs amounted to €118 million (2013: €107 million) and related to contract staff for specific projects and to fill vacancies.

The number of staff employed by Alliander, based on a 38-hour working week (FTEs), is shown in the table below:

Number of permanent staff (FTEs)

	2014	2013
Employed in continuing operations		
-Average during the year	5,907	5,878
-As at 31 December	5,866	5,948
-Number of permanent staff outside the Netherlands	151	151

WNT

On 1 January 2013, the Public and Semi-Public Sector Executives' Pay (Standards) Act (Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector / WNT) entered into force. This new act contains rules for the maximum remuneration for board members and senior executives in the public and semi-public sectors. The WNT limit is set annually by ministerial order.

WNT reporting

The WNT is applicable to the network operators Liander N.V. and Endinet B.V., which are required to report on the remuneration of Management Board members and senior executives. In addition, transparency is requested on the remuneration of other employees, including temporary hires, and termination payments exceeding a set limit in the reporting year. The separate annual reports of both network operators, which are to be published in the second quarter of 2015, will contain disclosures on the WNT requirements applicable to the network operators.

Remuneration of the Management Board and the Supervisory Board

The Remuneration Report sets out the remuneration policy, its implementation and the remuneration of the Management Board and the Supervisory Board. These three sections can be found in [article 'Corporate governance'](#) of the 2014 Annual Report. The remuneration of the members of the Management Board is disclosed in the following table.

Total gross annual remuneration chargeable to the financial year

€ thousand	Fixed salary		Short-term variable remuneration		Long-term variable remuneration		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
P.C. Molengraaf	231	229	42	69	69	51	342	349
M.R. van Lieshout	218	215	39	65	65	48	322	328
I.D. Thijssen ¹	160	-	-	-	-	-	160	-
Total	609	444	81	134	134	99	824	677

1. As from 1 March 2014

The fixed salary concerns the actual payment per annum, without amounts accrued for other remuneration elements. The short-term variable remuneration concerns the amount earned in relation to the relevant financial year. The long-term remuneration component is earned over a period of three years. In 2014, the long-term variable remuneration for the period 2012 - 2014 was finalised. The figure presented for 2013 relates to the period 2011 - 2013.

Pension contributions

€ thousand	2014	2013
P.C. Molengraaf	41	43
M.R. van Lieshout	39	40
I.D. Thijssen ¹	28	-
Total	108	83

1. As from 1 March 2014

Social security charges and other remuneration elements

€ thousand	2014 ²	2013 ²
P.C. Molengraaf	57	58
M.R. van Lieshout	57	56
I.D. Thijssen ¹	9	-
Total	123	114

1. As from 1 March 2014

2. The figures include the crisis levy, totalling €64,000 for 2014 and €62,000 for 2013, pursuant to the 2013 Budget Agreement (Tax Measures) Implementation Act.

In addition to the normal social security charges and contributions applicable to the company, the members of the Management Board have a right to an employer's contribution towards the group health insurance premium, premiums connected with the personalised package of secondary conditions of employment (Dutch acronym: PBA), an expense allowance, the use of a company car and the crisis levy.

Remuneration of the Supervisory Board

€ thousand	2014	2013
E.M. d'Hondt, Chairman	17.3	21.1
F.C.W. Briët	30.9	30.6
Ms J.B. Irik ¹	-	7.0
Ms J.G. van der Linde	11.5	15.5
Mw. J.W.E. Spies ²	11.0	8.7
Mrs A.P.M. van der Veer-Vergeer	28.4	28.0
J.C. van Winkelen	30.9	30.6
Total	130.0	141.5

1. Retired on 27 March 2013
2. Retired on 15 December 2014

The differences in remuneration are partly connected with an individual Supervisory Board member's tenure, the office held and/or applicability of the WNT restrictions.

Note 25 Other operating expenses

Other operating expenses

€ million	2014	2013
Additions / releases to provisions	-80	9
Premises and transport	18	18
Rent and leases	43	51
Corporate staff and ICT	56	46
Sufferance tax and other taxes	81	60
Other	41	63
Total	159	247

The amount of €80 million is made up of the amount released from provisions connected with the CDS (€127 million) and the movement in the valuation of the CDS (€47 million negative). For further disclosures concerning this movement, see [note \[8\]](#).

The rents and leases item includes an amount of €22 million for minimum lease payments. Sufferance tax and other taxes in 2014 amounted to €81 million compared with €60 million in 2013. The increase of €21 million in this item is due to the levying of sufferance tax by various new municipal authorities in 2014 coupled with higher rates of tax charged. The other expenses were down by €22 million as a result of cost savings due to fewer projects being carried out and a decrease in organisation costs.

The auditors' fees were as follows:

Auditors' fees

€ million	2014	2013
Description of services:		
Audit of the financial statements:	0.7	0.7
Other assurance services	0.4	0.7
Total	1.1	1.4

The above fees relate to the activities carried out by the accountancy firms and external auditors in connection with the parent company and the companies included in the consolidation, as referred to in Section 1, subsection 1, of the Audit Firms Supervision Act (WTA) and the fees charged by the entire network of which the accountancy firm is part. These fees relate to the examination of the financial statements for 2014, regardless of any activities already performed during the course of the year.

Note 26 Depreciation/amortisation and impairment of non-current assets

Depreciation/amortisation and impairment of non-current assets

€ million	Land and buildings	Networks	Other	Total
2014				
Depreciation	5	235	91	331
Divestments	5	12	12	29
(Reversal) impairments	-5	-	-1	-6
Total 2014	5	247	102	354
2013				
Depreciation	6	227	91	324
Divestments	-	17	9	26
(Reversal) impairments	6	1	-	7
Total 2013	12	245	100	357

In 2014, previously recognised impairment losses were reversed, making a gain of €6 million (2013: impairment losses of €7 million). This concerns the reversal of the impairments recognised in 2013 in respect of buildings and land on Spaklerweg (see [note \[33\]](#)) and a heat transmission pipeline (see [note \[3\]](#)). The divestments include the accelerated depreciation of decommissioned assets. The figures under the heading 'other' include the scheduled amortisation of intangible assets.

Note 27 Finance income

Finance income

€ million	2014	2013
Interest income on loans and deposits	1	1
Fair value movement of KEMA put option	-	6
Fair value movement of KEMA call option	-	7
Other finance income	10	9
Currency translation differences	39	20
Total	50	43

The other finance income largely concerns the available-for-sale financial assets relating to the cross-border lease contracts ([note \[6\]](#)).

The currency translation differences result from the effect of the movements in the US dollar exchange rate against the euro on the available-for-sale financial assets ([note \[6\]](#)).

The put and call options relating to KEMA were settled in 2014. For further details concerning the settlement of these options, reference is made to [note \[22\]](#).

Note 28 Finance expense

Finance expense

€ million	2014	2013
Loans from third parties	-79	-79
Capitalised interest assets under construction	3	-
Fair value movements swaps	-1	-5
Currency translation differences	-54	-15
Other finance expense	-12	-13
Total	-143	-112

The finance expense includes €3 million in respect of capitalised interest during the construction of the Duiven new-build project (€2 million, 4.0% interest) and the construction of a heat transmission pipeline by Indigo (€1 million, 6.0% interest). There were no assets qualifying for capitalisation of interest during the construction period in 2013.

The currency translation differences result from the effect of the movements in the US dollar exchange rate against the euro on the available-for-sale financial assets ([note \[6\]](#)) and the finance lease obligations ([note \[19\]](#)).

The other finance lease expense relates largely to the finance lease obligations ([note \[19\]](#)) but also includes costs for letters of credit and arranging credit lines.

Note 29 Tax

Tax

€ million	2014	2013
Current tax expense	-79	-54
Movement in deferred taxes	-15	-48
Total	-94	-102

The recognised tax expense of €79 million is made up of tax charges of €78 million for 2014 and a minor adjustment of €1 million relating to prior years.

The corporate income tax payable on the 2014 taxable profits of the Alliander N.V. tax group was €74 million. This is the balance of the calculated corporate income tax on the profit for 2014 (€78 million) and the calculated corporate income tax on movements in balance sheet items recognised directly in equity (€4 million tax credit). The remainder of the deferred tax asset (€4 million) can be set against the corporate income tax of €74 million which is payable.

A more detailed analysis of the movements in deferred tax can be found in [note \[17\]](#).

The table below provides a reconciliation between the corporate income tax rate in the Netherlands and the effective tax rate:

Reconciliation of effective corporate income tax rate

%	2014	2013
Enacted corporate income tax rate in the Netherlands	25.0	25.0
Impact of:		
Gain on sale of interest	-3.4	-
Other permanent differences	0.8	1.3
Effective corporate income tax rate	22.4	26.3

The lower effective tax burden in 2014 is due to the fact that tax was not payable on the book profit made on the disposal of the interest in KEMA. The loss posted by Alliander AG, which has not been recognised, adjustments based on the 2013 tax return and costs disallowed for tax purposes had the effect of increasing the effective tax burden.

Note 30 Notes to the consolidated cash flow statement

Cash flow from operating activities

The cash flow from operating activities in 2014 amounted to €623 million (2013: €683 million). The decrease of €60 million compared with 2013 is largely accounted for by a fall in the operating profit, excluding incidental items and fair value movements (€70 million), partly as a consequence of the reduction in the regulated tariffs.

Cash flow from investing activities

The cash outflow from investing activities in 2014 amounted to €410 million, which is €83 million lower than in 2013. The reduced cash outflow overall is chiefly explained by the cash inflow from the sale of the interests in the associates KEMA to DNV GL Group (€80 million) and CDMA utilities to Eneco (€4 million).

The cash flow relating to investments in property, plant and equipment amounted to €570 million, the same as in 2013 (€570 million). The contributions towards capital projects received from third parties in 2014 amounted to €80 million and were again almost the same as in the previous year (€82 million).

Cash flow from financing activities

The cash flow from financing activities in 2014 amounted to €201 million negative (2013: €135 million negative). The negative cash flow is largely explained by the repayment of the EMTN loans (€276 million) and distribution of dividend (€125 million), with positive amounts in this cash flow coming from the Euro Commercial Paper (ECP) that was issued (€153 million) and receipts from short-term cash deposits (€75 million).

Note 31 Licences

Liander Infra West N.V. and Liander Infra Oost N.V., both wholly-owned subsidiaries of Liander, own networks for the transportation of electricity and gas in the Netherlands. In accordance with the Electricity Act 1998 (E-Act) and the Gas Act (G-Act), these subsidiaries have appointed Liander as network operator for their gas and electricity networks for a ten-year period (expiry date: 09 June 2024). Liander N.V. executes the tasks incumbent on it under the E-Act and the G-Act. The approval of the Minister of Economic Affairs for the appointment of Liander as network operator that was given on 2 May 2014 was subject to the condition that Alliander N.V. amended its Articles of Association by no later than 31 May 2015 to bring them into line with Section 11 of the Electricity Act 1998 and Section 3 of the Gas Act. This amendment of the Articles of Association is in preparation and will be put before the General Meeting of Shareholders to be held on 8 April 2015 for adoption. Endinet B.V. is owner of the local electricity distribution network in Eindhoven. Endinet is also owner of the local gas distribution network in Eindhoven and in the wider Eindhoven and Oost-Brabant region. Endinet B.V. is designated network operator of these electricity and gas networks under the E-Act and G-Act (expiry date: 13 December 2020).

Note 32 Related parties

As holder of 45% of the shares in Alliander, the Province of Gelderland has significant influence over the company, qualifying the province as a related party. At year-end 2014, the remaining shares were held by 55 shareholders, none of which is a related party.

The Alliander group has interests in various associates and joint ventures over which it has significant influence but not control or has joint control of operations and financial policy. These associates and joint ventures are consequently designated as related parties. Transactions with these parties, some of which are significant, are executed on market terms and at market prices which are not more favourable than those which would be negotiated with independent third parties.

The following transactions were entered into with related parties for the purchase and sale of goods and services:

Related party transactions

€ million	2014	2013
Sales of goods and services		
Associates	2	3
Joint ventures	71	67
Total	73	70
Purchase of goods and services		
Associates	7	11
Joint ventures	89	89
Total	96	100

The transactions involving the Province of Gelderland have ceased to be included in these disclosures with effect from 2011, owing to the exemption now applicable in the case of related parties that are public authorities. There were no significant transactions with individuals who qualify as related parties. As at year-end 2014, Alliander had assets of €18 million (2013: €18 million) in respect of loans granted to related parties and liabilities of €27 million in respect of agreed borrowings on current accounts with related parties (2013: €8 million).

Note 33 Assets and liabilities held for sale and discontinued operations

The assets held for sale as at year-end 2014 relate to a high-voltage network in the Centre of the Netherlands (€9 million). As at year-end 2013, this item related to part of the buildings and land on Spaklerweg, Amsterdam, (€13 million) and a high voltage network in the Centre of the Netherlands (€9 million). These assets form part of the Network Operator Liander segment.

With regard to the Spaklerweg asset, heads of agreement were reached with the City of Amsterdam in 2013 concerning the sale of some of the buildings and land in 2014. The carrying amount of the assets to be sold is €19 million. The sale price will only be received in instalments, however, over a number of years commencing in 2020, reducing the carrying amount (net present value, arrived at using a discount rate of 3.75%) of this sale price to €13 million as at year-end 2013. On this basis, an amount of €6 million was recognised as an impairment loss in the income statement for 2013.

September 2014 saw the handover of part of the buildings and the land, giving rise to recognition in the income statement of a long-term interest-bearing receivable of €17 million from the City of Amsterdam. At the same time, essentially based on a revised discount rate, an amount of €5 million was recognised as a reversal of impairment losses in the income statement.

The expected sale of a 150 kV transmission network is an outstanding transaction resulting from the statutory obligation incumbent on the regional network operators to transfer all high voltage transmission systems operating at 110 kV and above to the national transmission grid operator TenneT. The delay is due to power line realignment work which still has to be completed.

There are no long-term liabilities associated with the assets held for sale in the case of either transaction.

There were also no discontinued operations in either 2014 or 2013.

Note 34 Information on risks and financial instruments

General

The following financial risks can be identified: market risk, credit risk and liquidity risk. Market risk is defined as the risk of loss due to an adverse change in market prices. Alliander's main exposure is to commodity price risk, currency risk and interest rate risk. The credit risk is the risk arising in connection with the default of counterparties to trading and sales transactions. The liquidity risk is the risk of the company being unable to meet its payment obligations as they fall due.

This note provides information on these financial risks to which Alliander is exposed, the objectives and policy for managing risks arising from financial instruments as well as the management of capital. Further quantitative information is provided in the various notes in the consolidated financial statements.

Market risk

Alliander is exposed to the following potential market risks:

- commodity price risk: the risk that the value of a financial instrument will fluctuate because of changes in commodity prices; this mainly affects the cost associated with network losses;
- currency risk: the risk that the value of a financial instrument will fluctuate because of changes in exchange rates;
- interest rate risk: the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Alliander hedges market risks through the purchase and sale of derivatives and attempts to minimise income statement volatility as far as possible through the application of hedge accounting. All transactions are carried out within the guidelines approved by the Management Board.

Commodity price risk

As regards the cost of network losses, Alliander is sensitive to the effect of market fluctuations in the price of various energy commodities, including but not limited to electricity and green certificates (renewable energy certificates – RECs).

Currency risk

General

Alliander is exposed to currency risk on purchases, cash and cash equivalents, borrowings and other balance sheet positions denominated in a currency other than the euro. The currency risks concern transaction risks, i.e. risks relating to future cash flows in foreign currencies and balance sheet positions in foreign currencies. Currency risks as at 31 December 2014 mainly relate to balance sheet positions in USD and GBP. These risks are hedged as far as possible.

Subsidiaries report currency positions and risks to Alliander's Treasury Department. These positions and risks are principally hedged back-to-back with external counterparties through spot and forward exchange contracts.

Exposure to currency risk and sensitivity analysis

Alliander's exposure to currency risk based on nominal value is presented in the table below. This table shows the pre-tax effect that a possible increase or decrease in the value of foreign currencies relative to the euro would have, assuming all other circumstances remained unchanged, on Alliander's finance income and expense and equity, taking into account derivatives concluded to hedge the currency risk. The effects on equity and income are calculated using the closing rate at the balance sheet date. Alliander operates mainly in the Netherlands and to a small extent in Germany and so has no currency risk on its normal operations. Non-operational risks of this nature as at year-end 2014 related to the assets and liabilities connected with two cross-border lease contracts disclosed in the financial statements plus the ECP finance issued at the end of 2014.

The US dollar amounts in the table below relate to the DePfa notes bought in 2008 as part of the restructuring of the investment portfolio relating to two cross-border leases. The currency risk on the purchase of these USD notes is hedged by means of a currency hedge contract. Hedge accounting is not applied in the case of these currency derivatives. Liander also recognises USD investments and liabilities for two CBL contracts in the balance sheet. The table shows that currency risks do not directly affect the equity position. All currency translation gains and losses are recognised through the income statement.

Finance was raised in 2014 under the Euro Commercial Paper Programme, denominated in sterling (GBP). This position, too, is hedged by means of forward currency contracts. The currency translation differences are recognised through profit or loss and do not affect the equity position.

Currency risk sensitivity analysis

€ million	Position	Income		Equity	
		Decrease by 10% relative to the euro	Increase by 10% relative to the euro	Decrease by 10% relative to the euro	Increase by 10% relative to the euro
As at 31 December 2014					
Exposure in USD	158	-18	14	-	-
Hedged position in USD	-158	18	-14	-	-
Sensitivity of cash flow in USD (net)					
Exposure in GBP	155	-17	14	-	-
Hedged position in GBP	-155	17	-14	-	-
Sensitivity of cash flow in GBP (net)					
Total exposure in foreign currencies	313	-35	28	-	-
Total hedged position in foreign currencies	-313	35	-28	-	-
Sensitivity of cash flow in foreign currencies (net)					
As at 31 December 2013					
Exposure in USD	139	-15	13	-	-
Hedged position in USD	-139	15	-13	-	-
Sensitivity of cash flow in USD (net)					
Total exposure in foreign currencies	139	-15	13	-	-
Total hedged position in foreign currencies	-139	15	-13	-	-
Sensitivity of cash flow in foreign currencies (net)					

The following important exchange rates were applicable as at the balance sheet date:

Exchange rates

	2014	2013
EUR		
USD	1.21	1.38
GBP	0.78	-

Interest rate risk

General

The following table provides information on the extent to which Alliander is exposed to changes in interest rates on financial instruments and shows the effective interest rate at the balance sheet date and the maturity date or, if earlier, the contractual interest repricing date.

Alliander had no interest rate swaps outstanding as at year-end 2014 or 2013.

Maturity date or earlier contractual interest repricing date

€ million	Effective interest rate	Variable/ fixed	Carrying amounts			Total
			Less than 1 year	Between 1 and 5 years	Over 5 years	
As at 31 December 2014						
Assets						
Available-for-sale financial assets and other financial assets	2.54%	Fixed / variable	159	-	200	359
Loans and receivables			26	23	19	68
Cash and cash equivalents		Variable	167	-	-	167
Total assets			352	23	219	594
Loans received						
Subordinated loans	8.6%	Fixed	-5	-22	-68	-95
Private and green loans	2.9%	Fixed	-1	-20	-	-21
Euro Medium Term Notes	3.9%	Fixed	-	-399	-1,095	-1,494
Euro Commercial Paper	0.6%	Fixed	-153	-	-	-153
Banks	0.6%	Fixed	-	-	-	-
Other		Variable	-	-	-12	-12
Finance lease obligations	6.6%	Fixed	1	4	-150	-145
Total liabilities			-158	-437	-1,325	-1,920
As at 31 December 2013						
Assets						
Available-for-sale financial assets and other financial assets	2.84%	Fixed / variable	-	136	161	297
Loans and receivables			102	20	3	125
Cash and cash equivalents		Variable	155	-	-	155
Total assets			257	156	164	577
Loans received						
Subordinated loans	8.8%	Fixed	-4	-26	-66	-96
Private and green loans	3.0%	Fixed	-1	-20	-	-21
Euro Medium Term Notes	3.9%	Fixed	-277	-399	-1,093	-1,769
Banks	8.2%	Fixed	-2	-	-	-2
Other		Variable	-	-	-7	-7
Finance lease obligations	6.6%	Fixed	-	3	-130	-127
Total liabilities			-284	-442	-1,296	-2,022

Sensitivity analysis

Sensitivity analysis in relation to fair value for fixed-rate assets and liabilities:

Alliander has no fixed-rate financial assets and liabilities that are recognised at fair value through profit or loss.

Sensitivity analysis in relation to cash flows for variable-rate assets and liabilities:

A change of 100 basis points in interest rates as at 31 December 2014 would, assuming all other circumstances remained unchanged, have a pre-tax effect on Alliander's equity and income on an annual basis (finance income and expense) as shown in the following table.

Interest rate risk sensitivity analysis

€ million	Position	Income		Equity	
		Decrease by 100 basis points	Increase by 100 basis points	Decrease by 100 basis points	Increase by 100 basis points
31 December 2014					
Variable-rate instruments	184	-2	2	1	-1
Sensitivity of cash flow (net)	184	-2	2	1	-1
31 December 2013					
Variable-rate instruments	236	-2	2	2	-2
Sensitivity of cash flow (net)	236	-2	2	2	-2

Hedging transactions

Fair value hedging

In order to provide a complete or partial hedge against risks of fluctuations in the fair value of financial assets and/or liabilities as well as commitments entered into, Alliander made use of derivative financial instruments in preceding years.

Using a number of interest rate swaps, a proportion of the fixed-rate bond loan issued in 2004 was converted into a variable-rate loan. Prior to 2007, changes in the market value of this loan as well as of the swaps designated as hedges were recognised in finance income and expense. Following the settlement of this fair value hedge in 2007, the loss carried in the fair value hedge reserve is being amortised over the remaining term to maturity of this loan (year-end 2014), or until such time as the loan is repaid.

Cash flow hedging

Alliander previously issued Euro Medium Term Notes. In the period leading up to the issue of the Medium Term Notes in 2004, Alliander hedged the risks connected with the future interest payments by means of interest rate swaps. These swaps were designated as cash flow hedges. When the loans were issued, the interest rate swaps were settled in cash and the loss up to that date, contained in the cash flow hedge reserve, is being amortised over the remaining life of the loans (2019) so that, on balance, the originally hedged interest rate level is recognised in the income statement. Since these interest rate swaps were settled when the loans were entered into, there are no future cash flows from these interest rate swaps. The balance as at 31 December 2014 was practically nil (2013: practically nil).

Cash flow hedges

€ million	Hedge ineffectiveness	Hedge reserve as at 1 January	Changes in fair value	Transfer to Income	Hedge reserve as at 31 December
2014					
Interest rate risks					
Interest rate swaps	-	-1	-	1	-
Total 2014	-	-1	-	1	-
2013					
Interest rate risks					
Interest rate swaps	-	-2	-	1	-1
Total 2013	-	-2	-	1	-1

The table above presents the pre-tax movements in the cash flow hedge reserve in the financial year. As at year-end 2014, the balance of the cash flow hedge reserve after deduction of deferred tax was practically nil (2013: €0.4 million).

Credit risk

General

Credit risk is the risk of a loss being incurred because a counterparty is unable or unwilling to meet its obligations. Credit analysis and management are applied throughout the organisation, with the degree of review undertaken varying depending on the magnitude of the credit risk in a transaction.

Surpluses of cash and cash equivalents are placed in the money and capital markets on market terms and conditions with institutions satisfying a list of criteria drawn up by the Management Board, making them approved counterparties, up to the maximum limit set for the party in question. In addition, minimum requirements have been set for the credit ratings of such investments set by credit rating agencies. Changes in investments made by Alliander relating to the cross-border lease contracts require the individual approval of the Management Board. These investments were made for long terms, with the intention of generating sufficient returns to meet future lease obligations. The portfolio of investments on which Alliander is exposed to credit risks consists mainly of deposits, securities and sold credit default swaps. Credit risk is managed through an established credit policy, regular monitoring of credit exposures and application of risk mitigation tools.

Credit quality

Treasury

The creditworthiness of financial institutions from which Alliander has a receivable is monitored using specific credit analyses, CDS data and credit ratings. The greater part of the cash and cash equivalents, as well as cross-border lease investments and deposits and interest rate and currency derivatives, is placed or invested with parties with a credit rating of A or higher. 88% of the cash and cash equivalents (2013: 80%) is placed with parties with an AA rating or higher.

Sales

Alliander is exposed to credit risk; this is the risk of non-payment by customers for services provided. The company has procedures to limit credit exposure to counterparties and to ensure that outstanding positions are covered by collateral, for example, in the form of bank guarantees.

Maximum credit risk

The maximum credit risk is the carrying amount of each financial asset, including derivative financial instruments. The maximum credit risk that Alliander is exposed to in respect of the cross-border lease transactions is \$3,200 million (2013: \$3,100 million). This includes the risk on an investment in a credit default swap transaction with an underlying reference portfolio of \$12,200 million (2013: \$12,200 million), where the credit risk for Alliander has been capped at \$171 million (€141 million; 2013: €124 million). The carrying amount of the associated available-for-sale financial assets included in Alliander's balance sheet amounts to €200 million (2013: €161 million). The CDS has until June 2015 to run. In 2008, the investment was restructured to enhance the creditworthiness by replacing collateral assets in the structure, leading to an increase of the number of allowable credit events on the reference portfolio before the collateral assets are affected. An analysis of the estimated maximum risk exposure relating to the CDS can be found in [note \[8\]](#).

In December 2014, the fair value of the CDS was \$18 million (€15 million) and the additional provision amounted to \$153 million (€127 million) on the basis of this methodology. As at year-end 2014, the remaining term to maturity of the CDS was only six months and 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 past year to such an extent that it is not expected that the maximum risk relating to the entire product will materialize. 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.

The fair value based on a valuation by an external party amounted in December 2014 \$18 million (€15 million). 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 net effect is that with respect to the CDS in 2014 a release of €80 million has been recognised and set against the operating expenses.

Overdue instalments

Receivables which are past due, but for which no provision has been recognised, are without exception trade receivables from normal sales. The provision for bad debts also exclusively concerns trade receivables from normal sales. The ageing analysis of trade receivables was as follows on the balance sheet date (gross amounts):

Ageing analysis of trade receivables

€ million	2014	2013
Not overdue	27	32
0-30 days	30	38
31-90 days	6	8
91-360 days	6	1
> 360 days	6	7
Carrying amount as at 31 December	75	86

The movements in the provision for bad debts relating to trade receivables were as follows:

Movements in the provision for bad debt

€ million	2014	2013
Carrying amount as at 1 January	13	20
Utilised (trade receivables written off)	-2	-14
Released from / added to allowance account charged to income	-1	7
Carrying amount as at 31 December	10	13

The major part of the provision for bad debts is calculated using a graduated scale based on historical figures. The remainder is based on an assessment of individual accounts. The fair value of collateral obtained relating to overdue accounts and bad debts written off was nil (2013: nil).

The other receivables and the prepayments and accrued income do not contain any accounts older than one year.

Liquidity risk

Liquidity risk is the risk that Alliander is unable to obtain the financial resources required to meet its financial obligations on time. In this connection, Alliander regularly assesses the expected cash flows over a period of several years. These cash flows include operating cash flows, dividends, interest payments and debt repayments, replacement capital expenditure and the effects of a change in Alliander's creditworthiness. The aim is to have sufficient funds available at all times to provide the required liquidity. Liquidity and capital requirement planning is performed with a four-year horizon as a minimum. As at year-end 2014 Alliander had a committed credit facility of €600 million (up to 30 June 2018). This facility can be used for general operating purposes, working capital financing or debt refinancing. In addition to this credit facility, which was not drawn on as at year-end 2014, Alliander has an ECP programme totalling €1,500 million under which an amount of €200 million was outstanding as at year-end (2013: nil) and an EMTN programme of €3,000 million under which an amount of €1,500 million was outstanding as at 31 December 2014 (2013: €1,800 million). To provide information on liquidity risk, the following table shows the contractual terms of the financial obligations (translated at the balance sheet rate), including interest payments.

The liquidity risk arising in connection with possible margin calls related to foreign currency and interest rate management transactions and commodity contracts intended for own use is closely monitored and limited by ensuring diversity in the number of counterparties with which transactions are entered into as well as ensuring that appropriate thresholds and other terms and conditions are included in ISDAs and CSAs (Credit Support Annexes). In 2014, as in the preceding year, Alliander did not receive any margin call requests.

Liquidity risk 2014 and 2013

€ million	Carrying amount	Contractual cash flows			Total
		Less than 1 year	1 - 5 years	Over 5 years	
As at 31 December 2014					
Loans received					
Principal amounts	-1,763	-158	-747	-862	-1,767
Interest	-	-65	-213	-375	-653
Finance lease obligations	-145	-10	-39	-223	-272
Accounts payable	-103	-103	-	-	-103
Other payables	-379	-367	-	-12	-379
Off balance sheet commitments					
Operating lease liabilities	-	-20	-34	-2	-56
Currency instruments					
Forward obligations	-16	-	-	-	-
Buy	-	295	-	-	295
Sell	-	-311	-	-	-311
Total		-16	-	-	-16
Other derivatives	-	-	-	-	-
Total	-2,406	-739	-1,033	-1,474	-3,246
As at 31 December 2013					
Loans received					
Principal amounts	-1,888	-284	-440	-1,171	-1,895
Interest	-	-76	-210	-435	-721
Finance lease obligations	-127	-9	-34	-204	-247
Accounts payable	-88	-88	-	-	-88
Other payables	-359	-359	-	-	-359
Off balance sheet commitments					
Operating lease liabilities	-	-20	-39	-	-59
Currency instruments					
Forward obligations	2	-	-	-	-
Buy	-	143	-	-	143
Sell	-	-141	-	-	-141
Total		2	-	-	2
Other derivatives	-6	-	-6	-	-6
Total	-2,466	-834	-729	-1,810	-3,373

Measurement of fair value

The following table lists the financial instruments measured at fair value in descending order of the fair value hierarchy, with the levels of the input data used to measure the fair value defined as follows:

- level 1, quoted prices (unadjusted) on active markets for comparable assets or liabilities;
- level 2, inputs other than level 1 quoted prices observable for a particular asset or liability, either directly (i.e. in the form of actual prices) or indirectly (i.e. derived from prices);
- level 3, inputs not based on observable market data.

Fair value hierarchy

€ million	31 December 2014				31 December 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Available-for-sale financial assets	-	359	-	359	-	297	-	297
Non-current derivatives	-	-	-	-	-	-	-	-
Current derivatives	-	2	-	2	-	2	17	19
Total Assets	-	361	-	361	-	299	17	316
Liabilities								
Non-current derivatives	-	-	-	-	-	6	-	6
Current derivatives	-	18	62	80	-	-	-	-
Total Liabilities	-	18	62	80	-	6	-	6

The hierarchical analysis of the instruments is arrived at as far as possible on the basis of the availability of quoted prices on active markets or other observable inputs.

Credit default swap

The amount of €6 million shown as a non-current derivative under level 2 as at year-end 2013 concerns a CDS linked to one of the available-for-sale financial assets, for which a provision had been recognised in respect of the maximum risk related to this product. In 2014, this provision was released (see also more detailed disclosures in note [8]), and management took the view that the risky nature of the product should be reflected in the measurement of the fair value. As at year-end 2014 the valuation by an external party amounted €15 million. However, Alliander's management felt that this amount did not sufficiently reflect the remaining risks attendant upon the product inasmuch as, in a default situation affecting the underlying financial instruments, the security furnished would be payable in tranches. Based on an internal risk analysis, using the probability of default according to Bloomberg together with an estimate regarding model-derived uncertainties, a value of €62 million negative as at year-end 2014 was arrived at, shown under level 3. In connection with the remaining term to maturity (June 2015), the derivative was reclassified as current in 2014.

Methods used for level 2 fair value measurement

Available-for-sale financial assets consist of investments in securities whose fair value is equal to the carrying amount. Part of these assets relates to cross-border lease contracts. The fair value is arrived at by discounting the future cash flows using the interbank interest rate as at the reporting date plus market credit spreads for these or similar investments.

The other level 2 derivatives are currency instruments and are measured at the present value of the future cash flows calculated using the interbank interest rate as at the reporting date and credit spreads of the parties concerned. Present values in foreign currency are translated at the spot rate applicable on the reporting date.

Methods used for level 3 fair value measurement

The level 3 derivatives included under this heading as at year-end 2013 concern the put option (€17 million) and the call option (practically nil value) which were part of the agreement relating to the transfer of the KEMA shares. The movements in these derivatives during the reporting period were as follows:

Reconciliation in level 3 Instruments

€ million	CDS	Assets Put option	Liabilities Call option
Carrying amount as at 1 January 2014	-	17	-
Recognition CDS	62	-	-
Settlement options	-	-17	-
Carrying amount as at 31 December 2014	62	-	-

For further disclosures concerning the settlement of these options, reference is made to [note \[22\]](#).

Fair value of other financial instruments

The following table lists the fair values of the financial instruments that are not recognised at fair value but at amortised cost, including the fair value hierarchy levels of the input data used.

Fair value of financial assets and liabilities measured at amortised costs

€ million	Note	31 December 2014		31 December 2013	
		Fair value	Level	Fair value	Level
Non-current assets					
Other financial assets	7	44	2	25	2
Liabilities					
Non-current liabilities					
Finance lease liabilities	19	-142	2	-122	2
Interest-bearing debt:					
Euro Medium Term Notes	13	-1,703	1	-1,582	1
Other interest-bearing debt	13	-180	2	-163	2
Total non-current liabilities		-2,025		-1,867	
Short-term liabilities					
Interest-bearing debt:					
Euro Medium Term Notes	13	-	1	-286	1
Euro Commercial Paper	13	-153	2	-	
Other interest-bearing debt	13	-7	2	-4	2
Total short-term liabilities		-160		-290	
Total liabilities		-2,185		-2,157	

Measurement of fair value

The fair value of these instruments is measured as follows:

Other financial assets: The fair value of loans granted by Alliander is measured on the basis of the incoming cash flows discounted using risk-free interest rates plus credit spreads for these or similar investments. As regards the current portion of these assets, it is assumed that the fair value is more or less the same as the carrying amount.

Loans received: The fair value of the Euro Medium Term Notes is measured on the basis of market prices quoted by Bloomberg. The fair value of the other loans received is measured on the basis of the outgoing cash flows discounted using risk-free interest rates plus credit spreads applicable to Alliander. As regards the current portion of these liabilities, it is assumed that the fair value is more or less the same as the carrying amount.

Finance lease obligations: The fair value of these obligations is measured on the basis of future cash flows discounted using risk-free interest rates plus credit spreads applicable to Alliander.

The fair value of the following financial assets and liabilities is more or less the same as the carrying amount.

- trade and other receivables;
- current tax assets;
- current other financial assets;
- cash and cash equivalents;
- trade and other payables;
- current tax liabilities.

Financial policy

Alliander's financial policy, which is part of its general policy and strategy, is to obtain an adequate return for shareholders and to protect the interests of bondholders and other providers of capital, while maintaining the flexibility to grow and invest in the business. As part of Alliander's financial framework, the subordinated perpetual bond loan issued in 2013 is treated as 50% equity and 50% borrowed capital. This is contrary to IFRS, under which the subordinated perpetual bond loan is considered to be 100% equity.

Finance income and expense

The table below shows the income and expenses in respect of financial instruments recognised in the income statement:

Effect of financial instruments on income statement

€ million	2014	2013
Net result on derivatives held for trading:		
Fair value changes in currency instruments	18	-3
Fair value changes interest rate derivatives and options	-1	5
Net result on available-for-sale financial assets	-36	-12
Net result on financial liabilities at amortised cost:		
Interest charges on financial liabilities at amortised cost	-86	-89
Interest gains on cash equivalents, loans granted, trade receivables, other receivables and deposits	11	10
Currency translation differences on restricted cash	21	17
Fees paid and received other than for the calculation of the effective interest rate	-2	-3
Net changes in fair value of cash flow hedges transferred from equity	-1	-1
Net finance income and expense	-76	-76
Impairment of trade receivables	1	-7
Fair value changes CDS	80	-
Other operating expenses	81	-7

The table below shows the income and expenses in respect of financial instruments recognised directly in equity:

Effect of financial instruments on equity

€ million	2014	2013
Effective part of changes in fair value of cash flow hedges	-	-
Net changes in fair value of cash flow hedges transferred to the income statement	1	1
Total recognised in cash flow hedge reserve	1	1

Note 35 Assumptions and estimates used in the financial statements (critical accounting policies)

Alliander's financial statements are prepared in accordance with International Financial Reporting Standards endorsed by the European Commission for use in the European Union. The preparation of financial statements and the measurement of items in the financial statements require the use of estimates and assumptions. These are mainly based on past experience and Alliander's management's best estimate of the specific circumstances that are, in the opinion of management, applicable in the given situation.

The assumptions and estimates used in the financial statements often relate to future developments. As a result, the actual outcome may differ significantly from the current measurement of a number of items in the financial statements. Consequently, the estimates and assumptions used may have a significant impact on equity and the results. The estimates and assumptions used are tested regularly and adjusted if necessary. This section sets out an analysis of the main areas where the measurement of assets, liabilities and the results is affected by the estimates and assumptions used.

Determination of the provision for employee benefits

The provision for post-employment benefits and other long-term employee benefits is determined on an actuarial basis, using assumptions on future salary levels, disability benefits (WAO/WIA), health insurance premiums, statistical assumptions on mortality rates, employee turnover and probability of disability. These assumptions, together with the discount rate used, influence the carrying amount of the provision for employee benefits and, consequently, the results.

Useful lives, residual values and impairment of property, plant and equipment

The measurement of the carrying amount of property, plant and equipment uses estimates regarding depreciation rates derived from the expected technical and economic lives of the assets concerned, and estimates of their residual value. Technological developments, altered market circumstances and changes in the actual usage of the items of property, plant and equipment involved may lead to changes in the expected technical and economic lives and the estimated residual value of the assets.

These factors may also trigger recognition of impairment. In measuring the extent of the impairment, estimates are made of the fair value less costs to sell and the value in use. The fair value less costs to sell is derived from assumptions on the possible selling price of a particular item of property, plant and equipment. The actual sales proceeds in the case of a disposal may differ from the estimates used. The value in use is based on the present value of the expected future cash flows, which are derived from the business plans for the coming years relating to the assets concerned. Adverse developments affecting customers which could lead to the recognition of an impairment, such as court protection from creditors or bankruptcy/ insolvency, are also taken into account. It is possible that Alliander may be forced to recognise additional impairments in the future as a result of changes in market or other circumstances.

Impairment of goodwill and other assets

Goodwill is not amortised but impairment tests must be performed annually in order to ascertain whether the value of the goodwill has been impaired. Previously recognised impairments of goodwill are not reversed in future years if it is found that the impairment ceases to apply. Other assets are tested if events or changes have occurred that trigger an impairment test. The impairment tests use estimates and assumptions of the fair value less cost to sell and the value in use. The estimate of the fair value less costs to sell is derived from information on quoted prices on regulated markets and other market prices, recent transactions in comparable companies and bids and offers received. Actual proceeds and estimated costs to sell may differ from the estimates. Value in use is estimated using the present value of the expected future cash flows of the subsidiaries and associates involved. Actual cash flows may deviate from the cash flows in the business plans. The discount rates used also affect the ultimate value in use. It is possible that Alliander may be forced to recognise additional impairments in the future as a result of changes in market or other circumstances.

Measurement of trade and other receivables

Alliander regularly assesses the recoverability of receivables, based on past experience and specific developments affecting its suppliers. Impairments of trade receivables are recognised as a result of these assessments. The actual outcome may differ from the assumptions that were used to determine the losses.

Provisions

A characteristic of provisions is that the obligations are spread over several years and management has to make estimates and assumptions at the balance sheet date on the probability that an obligation will arise and the magnitude of the amount that will have to be paid. Future developments, such as changes in market circumstances, changes in legislation and court rulings, may cause the actual obligation to differ from the provision. In addition, Alliander is involved in a number of legal proceedings. Management assesses each individual case and decides whether a provision is necessary, based on the facts. This assessment includes the probability that a claim will be successful and the amount that is likely to be paid.

Network losses; allocation & reconciliation

The allocation process serves to determine estimates of the quantities of electricity and gas supplied and the associated network losses on a daily basis, particularly where standard annual consumption patterns are used for the consumer and SME market. These estimates are reviewed regularly, and quantities allocated to customers are adjusted for actual quantities ascertained through meter readings as part of this process (reconciliation). The legal requirements on reconciliation prescribe settlement within 21 months after the end of the month of supply. The expected results of reconciliation have been estimated and recognised in the financial statements as accurately as possible, but the final settlement may affect future results.

Tax

When preparing the financial statements, Alliander devotes considerable attention to assessing all significant tax risks and the current tax position is reflected in the financial statements to the best of its knowledge. Changing insights, for example as a result of final tax assessments for previous years, may lead to additional tax expense or income. New tax risks may also arise. In the measurement of deferred tax assets, particularly those relating to the differences between the carrying amount in the financial statements and the valuation for tax purposes of property, plant and equipment, assumptions are made on the extent to which such tax assets can be realised, and at what point in time. This is based in part on business plans. In addition, assumptions on the temporary and permanent differences between measurement for financial reporting purposes and for tax purposes are used in preparing the financial statements. The actual situation may differ from the assumptions used in determining deferred tax positions, due to differences of opinion, changes in tax rules and so on.

Other

The assumptions with respect to risks and financial instruments are described in [note \[34\]](#).

Note 36 Events after the balance sheet date

On 15 January 2015, Alliander increased its interest in Locamation from 14% to 39%, involving an investment of €2 million. Locamation's activities consist of developing and operating secondary installations for substations.

In October 2014, Alliander AG reached agreement with EWV Energie- und Wasserversorgung GmbH on the purchase of the gas distribution network in the municipality of Waldfeucht with effect from 1 January 2015. The relevant concession was acquired in 2014. The purchase price for the network, which was paid at the beginning of January 2015, was €3 million. The agreement with the municipality has a duration of 20 years.

On 2 January 2015, part of the cross-border lease transaction entered into by the former company ENW in 1998 for the gas distribution systems in Amsterdam was terminated on the contractually agreed date of the option. As a consequence, the total net carrying amount of the assets covered by cross-border leases reduced by €200 million, the related investments by \$200 million, the strip risk by \$0.1 million and the security provided in the form of letters of credit by \$0.5 million. The figures quoted are relative to the reported amounts as at year-end 2014.

Company financial statements

Company balance sheet (as at 31 December, before appropriation of profit)

€ million	Note	2014	2013
Non-current assets			
Property, plant and equipment	37	243	212
Intangible assets	38	107	104
Investments in subsidiaries and associates	39	2,256	2,154
Other financial assets	40	22	23
Total non-current assets		2,628	2,493
Current assets			
Other receivables		14	11
Other financial assets		25	100
Derivatives	8	2	19
Receivables from subsidiaries	41	2,809	2,772
Cash and cash equivalents	42	169	140
Total current assets		3,019	3,042
Total assets		5,647	5,535
Equity			
	43		
Share capital		684	684
Share premium		671	671
Subordinated perpetual bond ¹		496	496
Revaluation reserve ¹		42	24
Hedge reserve ¹		-	-
Other reserves		1,363	1,212
Profit after tax		323	288
Total equity		3,579	3,375
Non-current liabilities			
Interest-bearing debt	44	1,605	1,602
Total non-current liabilities		1,605	1,602
Provisions			
	45	44	53
Short-term liabilities			
Current and accrued liabilities		401	505
Derivatives	8	18	-
Total short-term liabilities		419	505
Total equity and liabilities		5,647	5,535

¹ The hedge reserve, the revaluation reserve and the subordinated perpetual bond loan are not freely distributable.

Company income statement

Company income statement

€ million	Note	2014	2013
Other income less expenses after tax	47	3	38
Result of subsidiaries and associates after taxation		320	250
Net profit after tax		323	288

Notes to the company financial statements

Accounting policies for the company financial statements

Alliander uses the option provided by Section 362, subsection 8, Part 9, Book 2, of the Netherlands Civil Code to prepare the company financial statements in accordance with the accounting policies that are used in the preparation of the consolidated financial statements. These accounting policies also contain the basis on which financial instruments are presented as equity or as borrowed capital. As permitted by Section 402, Part 9, Book 2, of the Netherlands Civil Code, the company income statement is presented in abridged form.

Investments in subsidiaries

Investments in subsidiaries are recognised at net asset value, measured on the basis of IFRS accounting policies as used in the consolidated financial statements. The difference between consideration paid and net asset value on the date of acquisition is recognised separately as goodwill.

Note 37 Property, plant and equipment

Property, plant and equipment

€ million	Land and buildings	Other plant and equipment	Assets under construction	Total
Historical cost	158	268	23	449
Accumulated depreciation and impairment	-77	-158	-	-235
Carrying amount as at 1 January 2013	81	110	23	214
Movements 2013				
Investments	-	5	48	53
Divestments	-	-	-1	-1
Depreciation	-4	-44	-	-48
Transfers and other movements	-	21	-27	-6
Total	-4	-18	20	-2
Carrying amount as at 31 December 2013				
Historical cost	158	294	43	495
Accumulated depreciation and impairment	-81	-202	-	-283
Carrying amount as at 31 December 2013	77	92	43	212
Movements 2014				
Investments	-	5	70	75
Divestments	-3	-1	-5	-9
Depreciation	-4	-42	-	-46
Investment in joint operation CDMA	-	9	-	9
Transfers and other movements	-	37	-35	2
Total	-7	8	30	31
Carrying amount as at 31 December 2014				
Historical cost	150	345	73	568
Accumulated depreciation and impairment	-80	-245	-	-325
Carrying amount as at 31 December 2014	70	100	73	243

Note 38 Intangible assets

Intangible assets is made up of goodwill relating to the acquisitions of Endinet (€97 million) and Stam (€7 million), see [note \[4\]](#). In 2014, the item includes CDMA licences (€3 million), see [note \[5\]](#).

Note 39 Investments in subsidiaries and associates

Investments in subsidiaries and associates

€ million	Investments in subsidiaries	Investments in associates	Total
Carrying amount as at 1 January 2013	2,179	-	2,179
Movements 2013			
Dividends received	-308	-	-308
Result for the year	249	1	250
Internal transfers	-6	-	-6
Issue of share capital	42	-	42
Movement in revaluation reserve	-4	-	-4
Other changes	1	-	1
Total	-26	1	-25
Carrying amount as at 31 December 2013	2,153	1	2,154
Movements 2014			
Dividends received	-271	-	-271
Result for the year	320	-	320
Internal transfers	-1	-	-1
Issue of share capital	45	-	45
Movement in revaluation reserve	19	-	19
Sale interest CDMA	-4	-	-4
Deconsolidation CDMA	-5	-	-5
Other changes	-	-1	-1
Total	103	-1	102
Carrying amount as at 31 December 2014	2,256	-	2,256

Dividends amounting to €271 million (2013: €308 million) were received in 2014 from the subsidiaries Liander N.V. and Endinet Groep B.V. The investment of €45 million in 2014 largely relates to payments of share capital connected with the subsidiaries of Alliander N.V. For disclosures relating to CDMA, see [note \[5\]](#). In the company financial statements, CDMA is now included as a 60% interest in a joint operation, the corresponding deconsolidation of the 100% interest being shown in the statement of movements, see [note \[5\]](#). The dividends received from subsidiaries and payments of capital invested in them result from the capital restructuring of these companies in line with Alliander's policy.

The various share capital investments are listed separately under the heading '[Subsidiaries and associates](#)'.

Note 40 Other financial assets

Other financial assets

€ million	Deferred tax assets	Other receivables	Total
Carrying amount as at 1 January 2013	59	42	101
Movements 2013			
New receivable	-	13	13
Realised temporary differences	-5	-	-5
Tax losses carried forward	-51	-	-51
Loans paid	-	-35	-35
Total	-56	-22	-78
Carrying amount as at 31 December 2013	3	20	23
Movements 2014			
New receivable	-	1	1
Realised temporary differences	6	-	6
Tax losses carried forward	-4	-	-4
Loans paid	-	-4	-4
Total	2	-3	-1
Carrying amount as at 31 December 2014	5	17	22

Note 41 Receivables from subsidiaries

There is group-wide financing within the Alliander group, meaning that the activities of all subsidiaries are financed through a current account facility with the holding company. External financing is arranged by the holding company itself. In 2014, there was a capital restructuring of these companies in line with Alliander's policy, resulting in the payment of dividends to the holding company.

Note 42 Cash and cash equivalents

The cash and cash equivalents balance at the end of 2014 did not include any restricted cash (2013: nil).

Note 43 Equity

The statement of changes in equity is included in the [consolidated financial statements](#).

Note 44 Non-current liabilities

Interest rates and repayments on long-term liabilities were as follows: Interest-bearing debt

Interest-bearing debt

€ million	2014	2013
Carrying amount as at 1 January	1,886	1,891
Movements		
New loans	156	176
Repayments	-284	-181
Total	-128	-5
Carrying amount as at 31 December	1,758	1,886

Long-term interest-bearing debt including current portion

€ million	Effective interest rate		Current portion		Non-current portion	
	2014	2013	2014	2013	2014	2013
Subordinated loans	8.6%	8.8%	5	4	86	90
Private and green loans	2.9%	3.0%	1	1	19	20
Medium Term Notes	3.9%	3.9%	-	277	1,494	1,492
Banks	-	8.2%	-	2	-	-
Euro Commercial Paper	0.6%	-	153	-	-	-
Other	0.0%	-	-	-	6	-
Carrying amount as at 31 December			159	284	1,605	1,602

Subordinated loans

These loans were provided by shareholders and are subordinate to other liabilities.

Note 45 Provisions

Provisions

€ million	Post-employment medical benefits	Termination benefits	Other employee provisions	Environmental restoration provision	Other provisions	Total
Carrying amount as at 1 January 2013	3	11	42	7	2	65
Movements 2013						
Released	-	-4	-4	-	-	-8
Added	-	16	5	-	-	21
Utilised	-2	-9	-6	-4	-	-21
Interest	-	-	1	-	-	1
Major curtailments and settlements	-	-3	-1	-1	-	-5
Total	-2	-	-5	-5	-	-12
Carrying amount as at 31 December 2013	1	11	37	2	2	53
Movements 2014						
Released	-	-12	-3	-	-	-15
Added	-	19	10	-	-	29
Utilised	-1	-11	-6	-2	-	-20
Interest	-	-	1	-	-	1
Major curtailments and settlements	-	-2	-	-	-2	-4
Total	-1	-6	2	-2	-2	-9
Carrying amount as at 31 December 2014	-	5	39	-	-	44

The post-employment medical benefits concerns a post-employment medical scheme for retired employees. This obligation is not insured with a pension fund or external insurer and, by the end of 2014, had practically run down to zero. As at year-end 2014, the reorganisation provision amounted to €5 million (2013: €11 million). Other employee provisions mainly consists of the provision for long-service benefits (paid to employees who have completed 10, 20, 30, 40 and 50 years of service) and for payments on reaching retirement age and the provision for shorter working hours for older employees, a transitional scheme which was created by the Collective Labour Agreement of December 2005 to allow older staff members to reduce their working hours in the future.

Note 46 Contingent assets and liabilities

Pursuant to Section 403, Part 9, Book 2, of the Netherlands Civil Code, Alliander has assumed liability for the obligations arising from the legal acts of several of the subsidiaries listed under other information. Alliander, together with its Dutch subsidiaries, forms a tax group for both corporate income tax and value added tax (VAT). Consequently, every legal entity forming part of the tax group bears joint and several liability for the tax liabilities of the legal entities included in the tax group. Alliander has also given a declaration of indemnity to its network operators under which their liability in this respect is restricted to the amount for which they themselves would be liable if a tax group did not exist.

As at year-end 2014, Alliander had issued parent company guarantees amounting to €19 million (2013: €38 million). Bank guarantees amounting to €0.1 million had been issued on Alliander's behalf as at year-end 2014 (2013: €0.1 million).

Note 47 Other income less expenses after tax

Net other income and expenses after tax was an expense of €3 million (2013: €38 million income), mainly relating to company-wide activities at holding company level. The negative figure compared with 2013 is largely accounted for by internal interest charges passed on in 2014.

Remuneration of the Management Board and the Supervisory Board

Information on the remuneration of the Management Board and the Supervisory Board is presented in [note \[24\]](#) of the 2014 consolidated financial statements.

Arnhem, 18 February 2015

Management Board

Mr P.C. Molengraaf (chairman)

Mr M.R. van Lieshout

Ms I.D. Thijssen

Supervisory Board

Mr E.M. d'Hondt (chairman)

Ms J.G. van der Linde

Ms A.P.M. van der Veer-Vergeer

Mr J.C. van Winkelen



Other
information

Profit appropriation

The profit appropriation is governed by Article 33 of the Articles of Association. The text of this article is as follows: Article 33 Profit: Payment chargeable to the reserves.

1. Subject to approval of the Supervisory Board, the Management Board determines which part of the profit available for distribution - the positive balance of the income statement - is added to the reserves.
2. The profit remaining after the addition to the reserves, as referred to in the preceding clause, is at the disposal of the General Meeting of Shareholders.
3. Profit distributions are limited to the distributable part of the shareholders' equity.
4. Distribution of profit will take place after the adoption of the income statement, which demonstrates that it is permissible.
5. The Management Board may decide to distribute an interim dividend, subject to approval of the Supervisory Board and with due observance of clause 3 above and any other provision laid down by law.
6. The General Meeting of Shareholders may, on the Management Board's proposal that has been approved by the Supervisory Board, resolve to make distributions to shareholders chargeable to the distributable part of the shareholders' equity.

Events after balance sheet date

On 15 January 2015, Alliander increased its interest in Locamation from 14% to 39%. The transaction amount was €2 million. The activities of Locamation consist of the development and operation of secondary installations for substations.

In October 2014, Alliander AG reached agreement with EWV Energie- und Wasser-versorgung GmbH about the purchase of the gas network in the municipality of Waldfeucht, effective from 1 January 2015. The related concession was acquired in 2014. The purchase price of the gas network amounted to €3 million and was paid at the start of January 2015. The term of the agreement with the municipality is 20 years.

On 2 January 2015, the (partial) transaction that the former ENW entered into in 1998 for the gas networks in Amsterdam ended on the contractual option date. This results in a decrease in the total net carrying amount of the assets covered by cross-border leases (minus €0.2 billion), the related investments (minus \$0.2 billion), the strip risk (minus \$0.1 million) and the amount of letters of credit issued (minus \$0.5 million). The aforementioned figures concern the amounts recognised at year-end 2014.

Dividend proposal 2014

The Management Board has determined, with the approval of the Supervisory Board, to add €198.2 million of the profit to other reserves. The remaining profit of €124.6 million is at the disposal of the General Meeting of Shareholders. This equates to 45% of profit after taxation, excluding incidental items after tax that did not generate cash flows in the 2014 financial year.

The dividend for 2014 remained virtually unchanged relative to 2013. Though the comparable profit (profit excluding incidental items) is lower than the previous year, the dividend is almost the same. This is due to the incidental cash item relating to KEMA of €45 million (after taxation), which essentially offsets the lower comparable profit.

Subsidiaries and participations

As at 31 December 2014

	Based in	%
Consolidated subsidiaries		
Liander N.V. *	Arnhem	100%
Liander Infra Oost N.V. *	Arnhem	100%
Liander Infra West N.V. *	Amsterdam	100%
Liandon B.V. *	Duiven	100%
Stam Heerhugowaard Holding B.V. *	Heerhugowaard	100%
Stam & Co. Materieel B.V.*	Heerhugowaard	100%
Telinfra Support B.V.*	Heerhugowaard	100%
Stam & Co. Leidingwerken B.V.*	Heerhugowaard	100%
Stam & Co. Infratechniek B.V.*	Heerhugowaard	100%
Sol Energy v.o.f.	Heerhugowaard	67%
Endinet Groep B.V. *	Eindhoven	100%
Endinet Infra Bedrijfsvoering B.V.*	Eindhoven	100%
Endinet Infra Ontwikkeling B.V.*	Eindhoven	100%
Endinet B.V.*	Eindhoven	100%
Alliander Telecom N.V. *	Amsterdam	100%
Kenter Meetbedrijf B.V. *	Arnhem	100%
Alliander Participaties B.V. *	Arnhem	100%
Gamog Gasnetwerk Veluwe B.V.*	Arnhem	100%
Gamog Gasnetwerk Oost-Gelderland B.V.*	Arnhem	100%
Gamog gasnetwerk Flevoland B.V.*	Arnhem	100%
Nuon Warmtenetwerken I B.V.*	Amsterdam	100%
Nuon Warmtenetwerken II B.V.*	Amsterdam	100%
Nuon Elektriciteitsnetwerken I B.V.*	Amsterdam	100%
Nuon Elektriciteitsnetwerken II B.V.*	Amsterdam	100%
Nuon Gasnetwerken IV B.V.*	Amsterdam	100%
Nuon Gasnetwerken V B.V.*	Amsterdam	100%
Nuon Gasnetwerken VI B.V.*	Amsterdam	100%
Nuon Gasnetwerken VII B.V.*	Amsterdam	100%
Nuon Gasnetwerken VIII B.V.*	Amsterdam	100%
MPARE B.V.*	Arnhem	100%
Allego B.V. *	Arnhem	100%
Allego GmbH	Berlin	100%
Allego BVBA	Antwerp	100%
Hoom B.V. *	Arnhem	100%
Energy Exchange Enablers B.V. *	Arnhem	100%
Alliander Smart Connections B.V.*	Arnhem	100%
Alliander Duurzame Gebiedsontwikkeling *	Amsterdam	100%
Indigo B.V.	Arnhem	95%
Smart Society Services B.V.*	Arnhem	100%
Alliander AG	Berlin	100%
Alliander Netz Heinsberg GmbH	Heinsberg	100%
Alliander Stadtlicht GmbH	Berlin	100%
Alliander Netz Osthavelland GmbH	Osthavelland	100%
Alliander Netz Brandenburg GmbH	Brandenburg	100%
Alliander Netzbetrieb Hennigsdorf GmbH	Hennigsdorf	50%
Alliander Stadtlicht Rhein-Ruhr	Hagen	100%
Bietergemeinschaft Hagen GBR	Hagen	100%
Joint operations		
CDMA Utilities B.V.	Arnhem	50%

Other associates and joint ventures

Plugwise Holding B.V.	Sassenheim	39%
Locamation Beheer B.V.	Enschede	14%
The New Motion B.V.	Amsterdam	22%
Ziut B.V.	Arnhem	53%
Ziut Advies B.V.	Arnhem	100%
Redstack B.V.	Sneek	33%
INNAX Group B.V.	Veenendaal	6%
Green-A-Tec B.V.	Lochem	12%
Reddyn B.V.	Arnhem	50%
EDSN B.V.	Baarn	17%
Etriplus B.V.	Venlo	25%
RIL v.o.f.	Heerhugowaard	33%
Combinatie LBU-Plaisier v.o.f.	Heerhugowaard	50%
Stadtbeleuchtung Hagen GmbH	Hagen	49%

* Alliander N.V. has issued a Section 403 statement of liability for these subsidiaries.

Independent auditors' report

To: the general meeting and supervisory board of Alliander N.V.

Report on the financial statements 2014

Our opinion

In our opinion:

- the consolidated financial statements give a true and fair view of the financial position of Alliander N.V. as at 31 December 2014 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the company financial statements give a true and fair view of the financial position of Alliander N.V. as at 31 December 2014 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2014 of Alliander N.V., Arnhem ('the company'). The financial statements include the consolidated financial statements and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2014;
- the following statements for 2014: the consolidated income statement and the consolidated statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at 31 December 2014;
- the company profit and loss account for the year then ended; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Alliander N.V. in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the management board made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain, such as judgements with respect to goodwill, provisions, useful lives and impairments of fixed assets, (deferred) tax positions and grid losses. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the management board that may represent a risk of material misstatement due to fraud.



Materiality

- Overall materiality: € 10 million, which represents 0.75% of total expenses.

Audit scope

- We paid particular attention in our audit work to the significant components Alliander and Liander.
- Special attention was given to the acquisition and divestment of group

Key audit matters

- Useful lives of property, plant and equipment
- Strip risk with respect to cross border lease transactions
- Valuation of the Credit Default Swaps (CDS) including the provision for the risk related to the CDS
- Uncertain income tax positions

Materiality

The scope of our audit is influenced by the application of materiality. Our audit opinion aims on providing reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	€ 10 million (2013: € 10 million).
How we determined it	0.75% of total expenses.
Rationale for benchmark applied	<p>We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements and the importance of expenses in a regulatory environment. Grid companies are responsible for maintaining the energy grids, distributing energy to customers and connecting customers to the energy grids. Alliander's revenues are regulated as well as non-regulated. The regulated revenues result from distributing electricity and gas to customers and connecting customers to the energy grids and consist of fixed components, being the allowed capacity fee set by the Dutch Authority Consumer & Markets ('ACM'). The allowed capacity fee is based on the incurred expenses with respect to the regulatory environment.</p> <p>We compared the applied benchmark with alternative benchmarks, which could be relevant based on our analysis of the common information needs of users of the financial statements. These alternative benchmarks are based on profit before tax and the value of the electricity and gas grids.</p> <p>Applying the more common benchmark of 5% of profit before tax would result in a higher materiality amounting to € 21 million (2013: € 20 million).</p>

We also take misstatements and/or possible misstatements into account that, in our judgment, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above € 1 million (2013: € 1 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons. We reported all identified misstatements, including misstatements below € 1 million, to the management board.

The scope of our group audit

Alliander N.V. is head of a group of entities. The financial information of this group is included in the consolidated financial statements of Alliander N.V.

Considering our ultimate responsibility for the opinion on the company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole.

Determining factors are the fact that nearly all activities of Alliander take place in the Netherlands, the significance of Alliander and Liander within the group, the significance and/or risk profile of other group entities or activities, and the accounting processes and controls mainly being performed within the same financial department. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

The group audit focussed on the significant components Alliander and Liander. Additionally, we audited the group's consolidation, the notes and disclosures in the financial statements and the complex issues, including the acquisition and divestment of group companies (the sale of all shares in N.V. KEMA, the partial sale of CDMA Utilities B.V. and the acquisition of the Heinsberg municipality gas grid), impairment calculations, cross border lease transactions, credit default swaps and corporate income tax. All audit work at all group components was performed by the same audit team.

Due to complexity, the significance of several balance sheet line items, and notes and disclosures to the financial statements, we included specialists for taxation, treasury, valuation, regulation and corporate governance in the audit team. By performing the procedures above at the group components, combined with additional procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

Key audit matter	How our audit addressed the matter
<p>Useful lives of property, plant and equipment</p> <p>The disclosures to the property, plant and equipment are included in the accounting policies and notes 3, 26 and 35.</p> <p>The carrying value of property, plant and equipment as at 31 December 2014 amounts to € 6.2 billion, divided in land and buildings, grids, other plant and equipment, and assets under construction. Based on EU-IFRS, the management board is required to annually reconsider the useful lives of property, plant and equipment. Due to the carrying value amounting to € 5.3 billion, the reconsideration of the useful lives of grids was especially significant for our audit. As a result of the developments in the energy landscape, which are relevant to all grid companies, the estimates of useful lives of electricity and gas grids are affected by market and technological developments, regulatory and political considerations, combined with choices in maintenance and investment plans. This implies that the process of reconsidering useful lives is complex, requires management judgement on underlying assumptions, and is inherently subjective. In 2014 the management board extensively evaluated the useful lives of property, plant and equipment, which did not result in any adjustments.</p>	<p>As part of our audit work, we tested the reasonable and consistent application of the underlying assumptions in the annual evaluation of the useful lives and the carrying value as at 31 December 2014 of separate groups of assets, such as meters, cables and pipes, and substations, taking into account aforementioned developments. We used, among others, known maintenance data, the registration of disturbances and planned investments, based on the company's long-term strategic plans. We also took notice of the first results of the company's analysis of implications of the energy transition on existing grids. We concur with the management board's conclusion that no adjustments in the useful lives of property, plant and equipment are needed.</p>
<p>Strip risk with respect to cross border lease transactions</p> <p>The disclosures to the cross border lease transactions are included in the accounting policies and notes 3, 19, 34, 35 and 36.</p>	

The 'strip risk' is the portion of the 'termination value', which cannot be settled from the deposits and investments held for this purpose in the event of early termination of a cross border lease transaction by Alliander. At year-end 2014, the 'strip risk' for all transactions amounts to \$ 194 million (year-end 2013: \$ 278 million). The level of the 'strip risk' is significantly affected by the interest developments in the United States. The 'strip risk' fully consists of off-balance liabilities with respect to cross border lease contracts.

We tested the accurate calculation of the 'strip risk'. We reconciled the 'termination value' with the lease contracts. The value of the deposits and investments was reconciled to confirmations of independent and professional third parties. Based on the contracts, we verified that the company is entitled to not early terminating the contracts and that the company is not liable at the moment and in future for any deficits, as long as the contracts are not early terminated. The management board confirmed to us that Alliander has no intentions to early terminating the contracts. This confirmation is consistent with other audit evidence we obtained, including reading minutes of management board meetings and attending meetings of the audit committee and supervisory board. Finally we reviewed and determined that the cross border lease positions, including the 'strip risk' are adequately disclosed in the financial statements.

Valuation of the Credit Default Swaps (CDS) including the provision for the risk related to the CDS

The disclosures to the derivative CDS and the provision for the risk related to the CDS are included in the accounting policies and notes 6, 8, 16 and 34.

Part of the investment portfolio, which is related to two cross border lease contracts, is a written credit default swap (CDS). This instrument is an embedded derivative, insuring the creditworthiness of an underlying portfolio of some 100 funds. The CDS is separately recognised in the balance sheet as part of derivatives and valued at fair value. As of 2008, the maximum (insurance) risk related to the CDS amounting to \$ 171 million was provided for. This risk was partly recognised by the negative fair value of the CDS, which was confirmed by a third party. The remainder of the risk was recognised as provision due to the risky nature of the derivative and due to the fact that the management board had the opinion that the full (insurance) risk should be provided for. At year-end 2014, the remaining time to maturity of the CDS is only six months. The management board concluded, based on this limited time to maturity, that the default risk prior to expiration date of the funds included in the CDS portfolio has decreased last year. As the chances that the instrument is liable for the maximum amount are considered to be low, it is no longer possible to recognise a provision based on the criteria of IAS 37. This implies that the full provision amounting to \$ 153 million (€ 127 million) has been released to the operating expenses. According to a third party confirmation, the negative fair value of the CDS as at 31 December 2014 amounts to \$ 18 million (€ 15 million). In the view of the management board, this valuation does not take into account all remaining default risks of the underlying funds. Based on an internally performed risk analysis, the management board estimated the negative fair value of the CDS to be \$ 75 million (€ 62 million). The difference between the estimated value and the third party confirmation amounting to € 47 million was recognised in operating expenses. In total, a gain of € 80 million was recognised in the results 2014. We consider the estimate of the remaining risks with respect to this instrument to be a key audit matter because of its inherently subjective nature and its size.

As part of our audit work, we reconciled the negative fair value to the confirmation by an external financial institution. This financial institution is the counterparty of the instrument and is therefore not considered to be independent. Moreover, there is no mature market for these financial products.

As a result, we focussed our audit on the revised management board estimate of the maximum default risk for Alliander of the underlying funds in the CDS. Our treasury experts supported us during the audit. We tested the management board estimate of the default risk prior to expiration date of the funds included in the CDS portfolio, based on subordination, the value of collaterals, the credit spreads on single-name credit derivatives and credit ratings by rating agencies. Additionally, we verified the adequate disclosure in the financial statements of the CDS, including the management board estimate of the remaining risks. We concur with the estimate.

Uncertain income tax positions

The disclosures to the uncertain income tax positions are included in note 20.

In November 2010, Alliander issued a subordinated perpetual bond with a nominal amount of € 500 million, which was redeemed in 2013. According to EU-IFRS, this instrument classifies as equity. The paid interest to the bond holders was considered to be deductible for corporate income tax purposes. The Dutch tax authorities did not accept this deduction of interest payments. Alliander appealed to this decision. The management board estimates the maximum impact for Alliander at year-end 2014 to be between € 20 million and € 30 million. Based on written opinions by external legal and tax experts, the management board concluded that it is highly probable the Alliander's position in the tax declaration is accepted in the end. Therefore, no provision has been recognised.

Supported by our tax specialists, we read, among other things, the communications between the tax authorities, Alliander and the external experts which were appointed by the management board. We reviewed the management board estimate and verified its reasonableness and the supporting level of documentation. We assessed the level of expertise and the independence of the external experts. Additionally, we verified the adequate disclosure in the financial statements of the uncertain income tax positions. We concur with the management board's point of view.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters.

Key audit matter How our audit addressed the matter

Responsibilities of the management board and the supervisory board

The management board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and for
- such internal control as the management board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the management board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the management board should prepare the financial statements using the going concern basis of accounting unless the management board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The management board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit has been performed with a high but not absolute level of assurance which makes it possible that we did not detect all frauds or errors.

A more detailed description of our responsibilities is set out in the appendix to our report.

Report on other legal and regulatory requirements

Our report on the management board report and the other information

Pursuant to the legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the management board report and other information):

- We have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- We report that the management board report, to the extent we can assess, is consistent with the financial statements.

Our appointment

We were appointed as auditors of Alliander N.V. by the supervisory board following the passing of a resolution by the shareholders at the annual meeting held on 2 April 2014. We have been auditors of Alliander and its predecessors for a total period of uninterrupted engagement appointment of more than 15 years.

Amsterdam, 18 February 2015

PricewaterhouseCoopers Accountants N.V.

Original Dutch version signed by:

drs. R. Dekkers RA

Appendix to our auditor's report on the financial statements 2014 of Alliander N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgment and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among others of:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management board.
- Concluding on the appropriateness of the management board's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Assurance report

T0: the Board of Management of Alliander N.V. N.V

The Board of Management of Alliander N.V. ('the Company') engaged us to provide limited assurance (leading to a 'conclusion') on the sustainability information summarised below which is included in the Annual Report 2014.

The sustainability information in the following chapters has been part of our limited assurance procedures:

- [About this report](#)
- [About Alliander](#)
- Onze prestaties in 2014:
 - [Our results in 2014](#)
 - [Customers](#)
 - [Employees](#)
 - Shareholders and investors: chapter '[Our sustainability performance](#)'

In addition to the above, you requested us to provide reasonable assurance on the management reporting (MBR) data 2014 in the chapter; '[Objectives & results](#)' (leading to an 'opinion'). We believe that this combined engagement fulfils the rational objective as disclosed by the Company in the chapter '[About this report](#)'.

Our conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the sustainability information in the Annual Report 2014 in the above named chapters for the year ended 31 December 2014 does not provide, in all material respects, a reliable and appropriate presentation of the policy of Alliander N.V. for sustainable development, the activities and the performance relating to sustainable development during the year, in accordance with the Alliander's reporting criteria.

Our opinion

Based on the procedures we have performed and the evidence we have obtained, in our opinion the management reporting (MBR) data 2014 in the chapter '[Objectives & results](#)' in all material respects, in accordance with the Alliander's Reporting Criteria.

This conclusion and opinion are to be read in the context of what we say in the remainder of our report.

The basis for our conclusion and opinion

What we are assuring

We have reviewed the sustainability information included in the Annual Report of Alliander N.V. in Arnhem. This Annual Report comprises a representation of the policy, the activities, and performance of the Company relating to sustainable development during the reporting year 2014. The disclosures made by management with respect of the scope of the Annual Report 2014 are included in the chapter '[About this report](#)'.

A review leads to limited assurance. Limited assurance procedures focus on determining the plausibility of information and are substantially less in scope than reasonable assurance procedures. The work carried out during the review mainly consisted of obtaining information from Alliander officials and performing analytical procedures with regard to the information included in the Annual Report. The level of assurance obtained from limited assurance procedures is therefore also lower than obtained from full assurance procedures.

In addition to our limited assurance procedures, we have audited the management reporting (MBR) data 2014 in the chapter '[Objectives & results](#)' of the Annual Report 2014.

Limitations in our scope

The Annual Report 2014 contains prospective information, such as ambitions, strategy, targets, expectations and projections. Inherent to this information is that actual future results may be different from the prospective information and therefore it may be uncertain. We do not provide any assurance on the assumptions and feasibility of this prospective information as included in the Annual Report 2014.

The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the sustainability information is free from material misstatement due to fraud or error. This is because there are inherent limitations of an assurance engagement, which result in most of the assurance evidence on which the auditor bases the auditor's opinion being persuasive rather than conclusive.

Reporting criteria

The Company developed its sustainability reporting criteria on the basis of the G4 Guidelines of the Global Reporting Initiative (GRI), which are disclosed together with detailed information on the reporting scope and reporting process and methods in the chapter '[About this report](#)'. We consider the sustainability reporting criteria to be relevant and appropriate for our examination.

Understanding reporting and measurement methodologies

The information in the scope of this engagement needs to be read and understood together with the reporting criteria, for which Alliander N.V. is solely responsible for selecting and applying. The absence of a significant body of established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Our assurance approach

Materiality

We set thresholds for materiality at the planning stage and reassessed them during the engagement. These helped us to determine the nature, timing and extent of our procedures and to evaluate the effect of identified misstatements on the information presented, both individually and in aggregate. Based on our professional judgement, we determined specific materiality levels for each element of the sustainability information.

Work done

We are required to plan and perform our review and audit procedures in such a way to obtain a combination of limited and reasonable assurance that the Annual Report 2014 does not contain a material misstatement.

Review procedures

Our main review procedures included the following:

- performing an external environment analysis and obtaining an understanding of the relevant social issues, relevant laws and regulations and the characteristics of the organisation;
- evaluating the acceptability of the reporting policies and consistent application of these, as amongst others an assessment of the outcomes of the stakeholder dialogue and the process for determining the material subjects, the reasonableness of estimates made by management, as well as evaluating the overall presentation of the sustainability information in the Annual Report 2014;
- evaluating the design and implementation and testing of the operating effectiveness of the systems and processes for data gathering and processing of information as presented in the Annual Report 2014;
- interviews with relevant staff responsible for providing the information in the Annual Report 2014, carrying out internal control procedures on the data and the consolidation of the data in the Annual Report 2014;
- investigating internal and external documentation, in addition to interviews, to determine whether the information in the Annual Report 2014 is adequately substantiated;
- analytical review of the data and trend explanations;
- corroborating internal and external documentation to determine whether the sustainability information is substantiated adequately;
- assessing whether the sustainability information has been prepared 'in accordance' with the Sustainability Reporting Guidelines version G4 of GRI.

Audit procedures

In addition to the procedures mentioned above, for the information which has been audited, we performed the following:

- assessing the systems and processes for data gathering, including testing the design, existence and the effectiveness of the relevant internal controls during the reporting year;
- conducting analytical procedures and substantive testing procedures;

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion and opinion.

Professional and ethical standards applied

We conducted our assurance engagement in accordance with Dutch law, including Standard 3810N 'Assurance engagements relating to sustainability reports' (hereafter 'Standard 3810N'). Our responsibilities under this standard are further described in the "Our responsibilities" section of this report.

We are independent of the Company in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA) and other relevant regulations.

Responsibilities

The Board of Directors' responsibilities

The Board of Directors of the Company is responsible for the preparation of the Annual Report 2014 in accordance with the Company's reporting criteria, including the identification of the stakeholders and the determination of material subjects. Furthermore, the Board of Directors is responsible for such internal control as the Board of Directors determines is necessary to enable the preparation of the Annual Report 2014 that is free from material misstatement, whether due to fraud or error.

Our responsibilities

Based on our assurance engagement in accordance with Standard 3810N, our responsibility is to:

- express a conclusion on the sustainability information
- express an opinion on the management reporting (MBR) data 2014 in the chapter '[Objectives & results](#)'

This requires that we comply with ethical requirements and that we plan and perform our work to obtain limited assurance about whether the Annual Report 2014 is free from material misstatement.

The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Annual Report 2014, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant for the preparation of the Annual Report in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An assurance engagement aimed on providing limited and reasonable assurance also includes evaluating the appropriateness of the reporting framework used and the reasonableness of estimates made by management as well as evaluating the overall presentation of the Annual Report.

Amsterdam, 18 February 2015
PricewaterhouseCoopers Accountants N.V.

Original Dutch version signed by:
Drs. R. Dekkers RA

Materiality test

Each year, Alliander determines in a structured manner the topics that must minimally be included in the annual report. A materiality test is used for this purpose.

The assessment of the material themes forms the basis for determining the content of the integrated annual report and takes place at an early stage of the reporting process. The assessment is twofold, with an external focus on the relevance of the themes from the diverse perspectives of the stakeholder groups and an internal focus on the impact of these themes on the company.

In 2014, the relevance from the stakeholder perspective was determined by means of a digital questionnaire that was presented to a representative cross-section of each stakeholder group. The nature and scale of the impact of each of the selected themes for Alliander and its stakeholders was then gauged on the basis of a self-assessment. The materiality score from the previous reporting year was taken on board in the weighting. The outcomes from both the roundtable sessions with stakeholders and the stakeholder survey were discussed twice with the Management Board. The conclusion was that the topics stakeholders identified as important largely corresponded with the key themes that Alliander is pursuing. The themes are in line with our strategy and policy. Evolving trends were also examined, notably the growing interest in topics such as innovation and energy transition. Alliander is currently developing a variety of new initiatives for these themes. These material themes also served as the guideline in the process of determining the content of the annual report.

The process in five steps

Step 1: identification of relevant aspects and themes

The first step consisted of drawing up a list of socially significant themes that are relevant to the organisation. The guideline here was the list of aspects contained in the GRI G-4 guidelines and the 'Electric Utilities sector supplement'. The list is updated annually and, in addition to the GRI aspects, comprises material themes from the previous year, topics put forward by stakeholders and topics for which we have set internal performance indicators.

Stakeholder relevance

Based on a digital survey, the stakeholders assessed the socially significant themes on relevance. This stakeholder input led to the selection of the fifteen most relevant themes.

The results of the survey were classified according to stakeholder group, after which a weighted average was calculated. The stakeholder groups closest to the organisation (customers, employees and shareholders) were given a weighting of 2, while the other stakeholder groups (suppliers, knowledge institutions, authorities and investors) were given a weighting of 1. The results of this digital survey were given added substance and colour during stakeholder dialogues with groups of stakeholder representatives. The result was an overview and prioritisation of the most relevant themes from the stakeholder perspective.

Impact for Alliander

Next, we determined the indicative impact of the fifteen most relevant themes on the organisation. The extent of the impact was assessed internally and then broadly validated within the organisation by relevant experts. The impact model as applied within this method consists of three aspects:

- Negative impacts: how great is the impact on Alliander if the organisation does not perform well on the theme;
- Positive impacts: how great is the impact on Alliander if the organisation performs well on the theme;
- Probability: what is the probability of these positive or negative impacts occurring, and within what time horizon.

The impact analysis provides insight into the opportunities and risks for the organisation as well as the priority that should be given to addressing the topic.

Step 2: Weighting and comparison with 2013

In 2014, Alliander made an important step in the further development of the method for defining materiality. The changes included: application of the GRI G4 materiality principles, quantitative assurance by means of an anonymous stakeholder survey, subdivision into seven stakeholder groups, and a weighting of 2:1 based on the definition of the key and other stakeholders. Changes in the outcome of 2014 relative to 2013 can therefore be partly explained by adjustments and refinements of the method. For this reason, Alliander applies a weighted average over several years. Apart from being more reliable and less sensitive to hypes and measurement errors, this approach also serves to highlight trends in the materiality of the themes.

Step 3: GRI aspects with relevance for Alliander

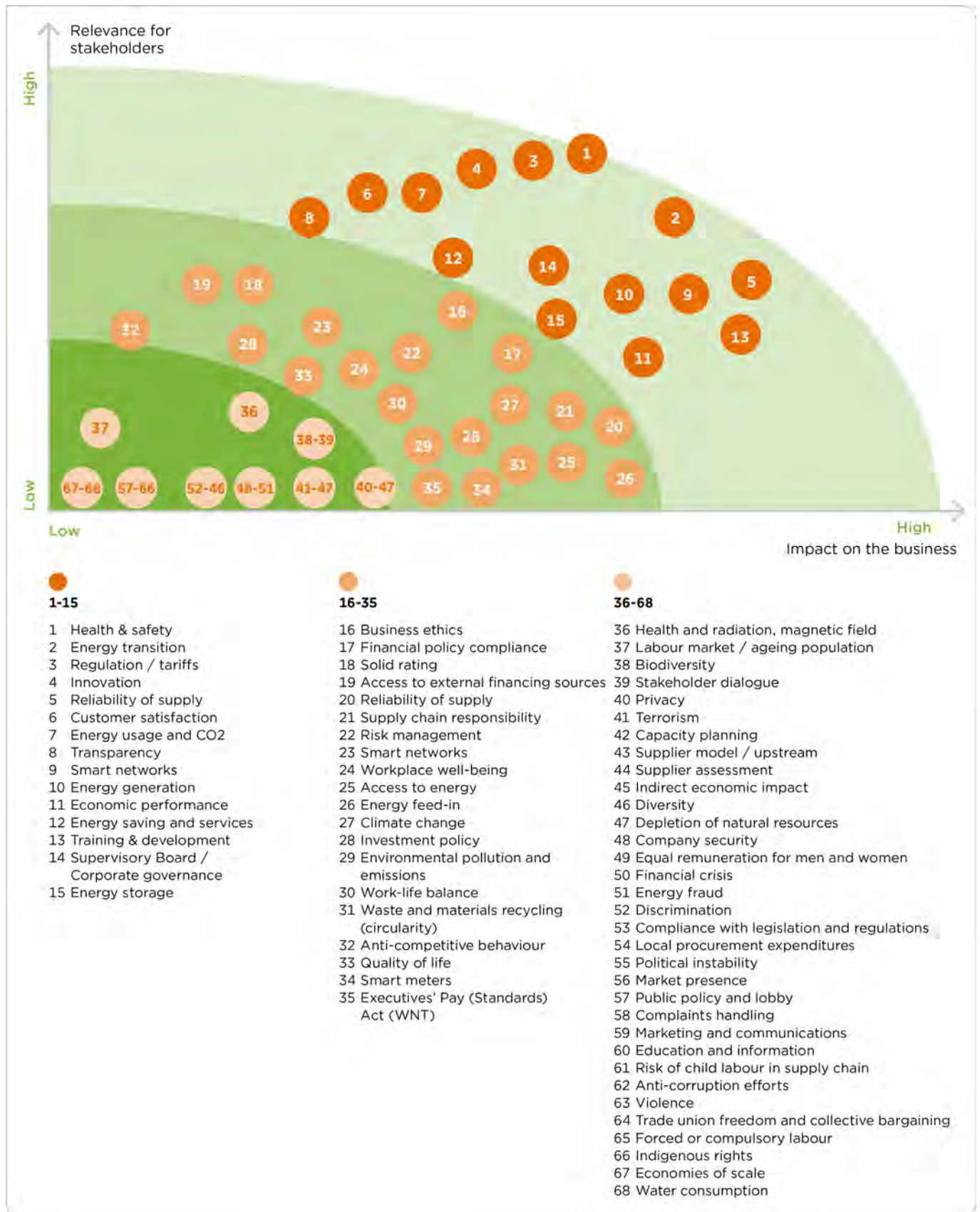
High-materiality themes have been matched with the corresponding aspects in the GRI guidelines. This overview is the yardstick for the composition of the accountability information in this annual report.

GRI Aspect	Alliander Theme	Description	Reference Chapter
Safety and working conditions	Health & Safety	Working on gas and electricity infrastructure carries inherent risks. Safe incident-free working practices are vital for everyone involved.	Employees
Service and information	Regulation and tariffs	The network operator's cost level in relation to that of the sector forms the basis for the tariffs permitted by the Netherlands Authority for Consumers & Markets. This gives network operators scope, within certain margins, to set their own tariffs. After several years of tariff increases, a reduction is now being enforced. This has an impact on the available financial scope, including for investments.	Customers
	Customer satisfaction	Customers count on excellent service, communication and handling of interruptions and complaints.	Customers
	Reliability of supply	Uninterrupted availability of energy is of vital importance to society. Interruptions have a direct impact on the interests of our stakeholders.	Customers
Energy	Energy transition	The transition from fossil to renewable energy generation, such as solar, wind or tide.	Customers
	Energy storage	A growing number of people are generating their own energy. Surplus production can be fed into the network, but local energy storage is also a potential link in a sustainable energy supply.	Customers
	Smart networks	The energy infrastructure for matching changes in energy supply, market relations and energy demand efficiently and safely.	Customers
	Role in energy generation	What role can or should network operators play in promoting renewable energy generation? Are they allowed to give priority to renewable feed-in or generate their own renewable energy to help accelerate the energy transition? Or is this absolutely not a task for network operators?	Shareholders and investors
	Energy saving	Energy saving prevents expensive generation of energy, saves costs and is a first step towards sustainability. We support stakeholders with information and data on their energy consumption. However, the regulator has restricted the freedom of network operators to engage in further-reaching activities and advisory services.	Customers

Emissions	Energy usage and CO₂	Climate change is a global problem. An organisation's climate impact can be expressed in a CO ₂ footprint, which indicates how many CO ₂ equivalents are emitted. Alliander's objective is to be CO ₂ -neutral by 2023.	Shareholders and investors
Corporate governance	Corporate governance	Adequate and effective supervision by the Supervisory Board is of vital importance.	Corporate governance
Materiality	Transparency	To what extent can or must Alliander be open to society about its intentions, operations and decision-making?	Other information
Economic performance	Economic performance	What contribution does Alliander make to its stakeholders by means of revenues, operating costs, employee remuneration, donations and other social investments, retained earnings and payments to lenders and authorities?	Shareholders and investors
Economic performance	Innovation	Due to the changing energy landscape, and in order to be prepared for developments, the ability to apply new technologies and solutions is extremely important for us. Alliander has the ambition to play a prominent role in the energy transition.	Customers
Training and education	Training and development	Technology and organisations are changing at an ever-faster pace. Working has become lifelong learning.	Employees

Step 4: Materiality matrix

The combination of the relevance for stakeholders on the Y-axis, and the impact of the themes on the organisation on the X-axis, shows the theme's impact on the level of the organisation's social performance and thus the priority it has within the annual report. The materiality chart provides a cross-section of the most material topics for Alliander's annual report.



Alliander subdivides the results of the materiality analysis into three categories.

Key themes

The 15 themes in the materiality matrix that are distinctive in the perception of a large group of stakeholders and for our performance. These themes are addressed at length in the annual report.

Corporate themes

Themes which, viewed across a broad group of stakeholders, receive less priority. This concerns themes that are relevant to certain stakeholders or for operational reasons, or must be reported on for compliance purposes. These are dealt with to a limited extent in the annual report and explained further in the GRI Index if necessary.

Potential themes

Themes that most stakeholders currently assign less priority and that have a lower impact on the organisation. However, these themes may in future be given more weight and are being monitored and, where necessary, maintained by Alliander. For statutory reasons, some of these themes form part of the annual report or the explanation in the GRI index.

Step 5: implementation

The materiality of topics as determined by the Management Board provides the basis for the design, content and management of the annual reporting process. It is decided how the topics are worked out and how these are incorporated in the information-gathering process, including the scope and boundaries of the material topics. Business units prepare the reporting process in cooperation with the responsible departments and set out the data validation and verification arrangements.

Further information on the reporting process can be found in 'About this report' and the GRI Index Table.

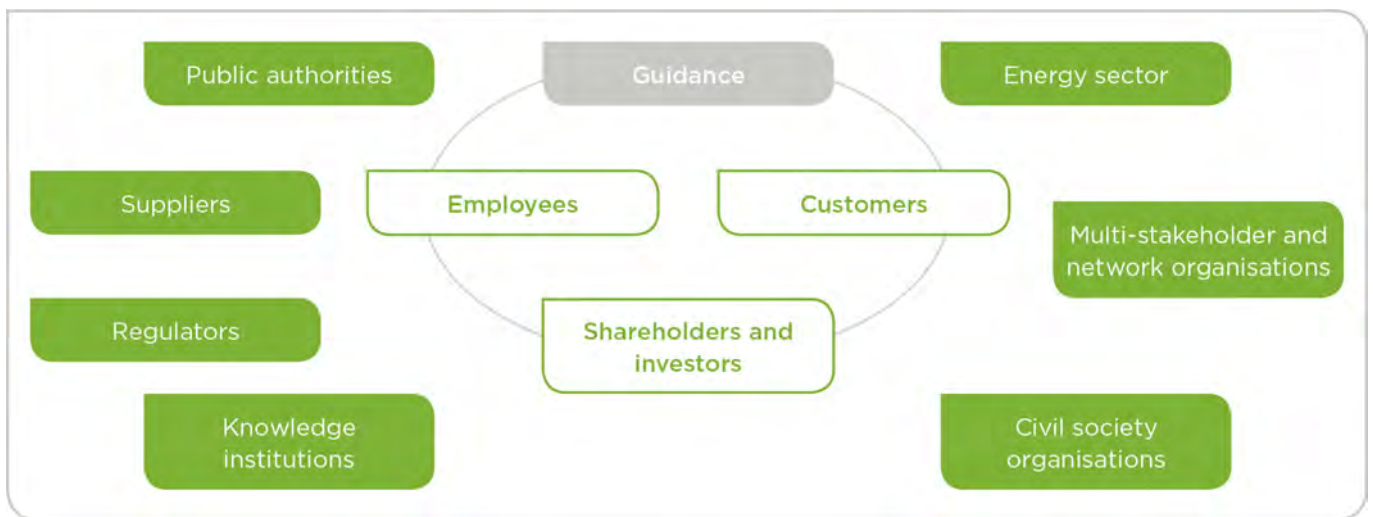
Interaction with stakeholders

In dialogue with stakeholders

Based on high-impact themes, we regularly seek to identify suitable parties for Alliander’s dialogue. Engagement, size, willingness to enter into dialogue and expertise are crucial considerations in this respect. We aim to find a common approach to issues, create support for initiatives, build trust and devise solutions with added value. Both for the short and long term. We maintain a daily dialogue with our customers about their energy demands, with our shareholders about promoting sustainable solutions, and with our employees about being an employer of choice. Together with all our stakeholders, we are moving forward to the energy supply of the future.

The Alliander stakeholder model comprises three stakeholder groups. A distinction is made between:

- key stakeholders: customers, employees and shareholders and investors;
- other stakeholders such as: suppliers, knowledge institutions, regulators and civil society organisations



Contacts with stakeholders

We conduct the dialogue with stakeholders on an ad-hoc and structured basis, organising customer panels and shareholder consultations and meetings with the Works Council. Supplier days, knowledge and partner meetings and participation in network organisations are key opportunities for exchanging views. We are in regular contact with politicians in the Netherlands and at the European institutions, and we also liaise with regulators.

Interaction with stakeholders

Stakeholder	Organisation	Type of interaction	Items for discussion	Reference
Customer - consumer	Web panel Customer survey Customer ombudsman Customer panels Consumer organisations	Digital panel Quantitative survey (four per year) Complaints and mediation (case by case) Qualitative research (various forms) Dialogue (various forms)	Collaboration, relationship management, dialogue and improved service	Customers
Customer - business	Trade associations	Dialogue / relationship management (various forms)	Collaboration, dialogue / relationship management and improved service	Customers

Employee	Employee survey Employee representation Young employee network - Tension Female employee network - Lianne GBLT network - Pride Staff association	Quantitative survey (quarterly) Formal consultation (monthly) Dialogue/workshops/meetings Ditto Ditto Employee association	Participation, dialogue and employee engagement	Employees
Authorities	Provinces and municipalities	Consultation, collaboration and projects (ad hoc projects)	Align climate and environmental plans and projects	Shareholders and investors
	Central government and European Union	Consultation, discussions and exchange of views (ad hoc projects)	Promote expression of interest and proactive dialogue	Shareholders and investors
Civil society organisations	Nature and environmental organisations	Consultation and dialogue about project design and sustainability topics (ad hoc projects)	Facilitate renewable energy supply	Customers
	Housing associations, developers and businesses	Discussions, participation in associations and foundations (frequent)	Participation, dialogue and relationship management	Customers
Suppliers	Contractors and industry Suppliers of goods and services	Contractors' day (once a year) Suppliers' days Theme-based consultations SRP consultations	Collaboration, relationship management and dialogue	Financial
Regulators	Netherlands Competition Authority Netherlands Authority for Consumers & Markets	Periodic meetings about topical subjects and issues Standard and ad hoc requests for information	Inform, exchange and explain	Customers
	State Supervision of Mines Dutch Safety Board	Periodic meetings about topical subjects and issues Standard and ad hoc requests for information	Inform, exchange and explain	Customers
Knowledge institutions	Educational institutions and knowledge organisations	Collaboration with Radboud University, HAN University of Applied Science, Regional Training Centres, Universities of Technology in Delft, Eindhoven and Twente	Knowledge exchange and partnerships	Employees
Multi-stakeholder and network organisations	Urgenda Groene Zaak Kenniskring Amsterdam NEN Standards Committee MVO Nederland Smart Energy Collective Klimaatverbond Nederland Milieu Centraal FRES Global Gas Network Initiative Global Intelligent Utility Network Coalition Global Reporting Initiative	Board membership, meetings, sponsorship (periodic)	Collaboration with knowledge institutions, businesses and authorities, promotion of sustainability	Customers
Energy sector	WENb employers' organisation E-decentraal Association of Energy Network Operators in the Netherlands Energy producers / suppliers	Board membership (monthly) Working groups (monthly) Stichting e-laad (continuous)	Knowledge exchange, partnerships, representation of interests, collaboration	Customers
Shareholders and lenders	Provinces and municipalities	General Meeting of Shareholders (at least once annually) Major shareholder consultations (at least once annually) Internships, management consultations, individual contacts Qualitative survey (every two years)	Formal and informal consultations, knowledge and insight into activities	Shareholders and investors
	Lenders, investors and credit rating agencies	Periodic consultations and reports on financial performance	Accountability and commentary	Shareholders and investors
Media	Local and national media	Relationship management Proactive information provision Crisis communications Qualitative survey (every two years)	Information, positioning	All stakeholders

National politicians	Both houses of Dutch parliament, ministries	Relationship management Working visits Proactive and reactive information provision Qualitative survey (every two years)	General information and information on specific topical themes	All stakeholders
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Stakeholder information and the annual report

In 2014, we held various roundtable sessions with stakeholder representatives to discuss our role within the energy sector and society, and Alliander's related activities. During these talks, great appreciation was expressed for the insights stakeholders exchange among themselves and with Alliander. We received suggestions for the further development of the annual report. Most of these suggestions have been taken on board in this report. Examples are greater transparency about shop floor safety, the opportunities offered to help people stay fit and vital, and suggestions about telling the story of our ecological footprint even more vividly and convincingly.

Social trends and stakeholder dialogues form the foundation for the identification of the most important themes we report on. Our stakeholders have assessed the impact of social and other themes for the organisation in a materiality test. Based on this stakeholder input, what they perceived as the fifteen most relevant and high-impact topics were prioritised.

Stakeholders tend to select themes that have a bearing on our operational activities, such as safe working conditions, customer satisfaction and reliability of supply. They also opt for themes enabling Alliander to distinguish itself in the future, such as energy transition, energy saving and innovation.

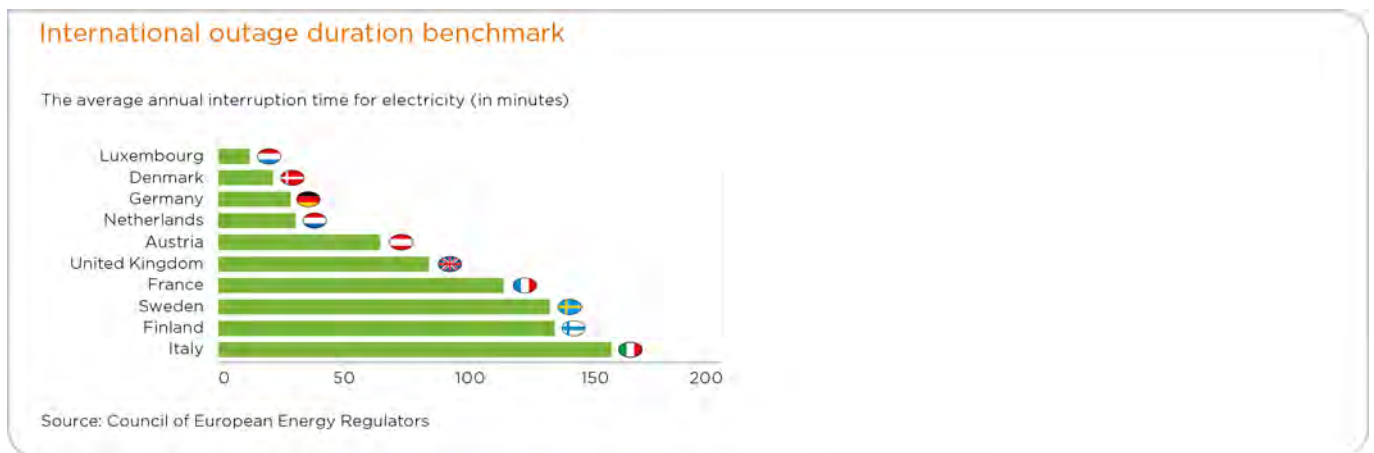
Performance benchmark

We look critically at our own performance, which we also compare with other companies, both in and outside the energy sector. We do this mainly to learn and to identify promising opportunities. Some benchmark data are explained below.

Benchmark within the energy sector

- **Outage duration**

Our networks are highly reliable. The outage duration for electricity at Liander was 19.9 minutes in 2014, which was lower, on average, than the national average in 2013. The gas outage duration at Liander was 6.9 minutes in 2014, which was considerably higher than the national average in 2013 (61 seconds). This was due to two major gas interruptions in Apeldoorn.



- **Customer satisfaction**

As regards our services to consumers, our customer satisfaction is above the benchmark (104%).

- **CSR rating**

The German CSR rating agency Oekom reassessed Alliander in 2014. Based on its findings, it upgraded Alliander from B to B+ (on a scale of A+ (highest) to D- (lowest)) on 14 July 2014. According to Oekom, this sustainability rating puts us among the industry leaders in our sector.

National benchmark

- **Absenteeism**

Alliander's absenteeism came to 3.8% in 2014 (2013: 4.1%). Average absenteeism in the Netherlands was 3.9% in 2013. Within our sector, we see comparable figures for 2013 at Enexis (3.8%) and Stedin (3.9%).

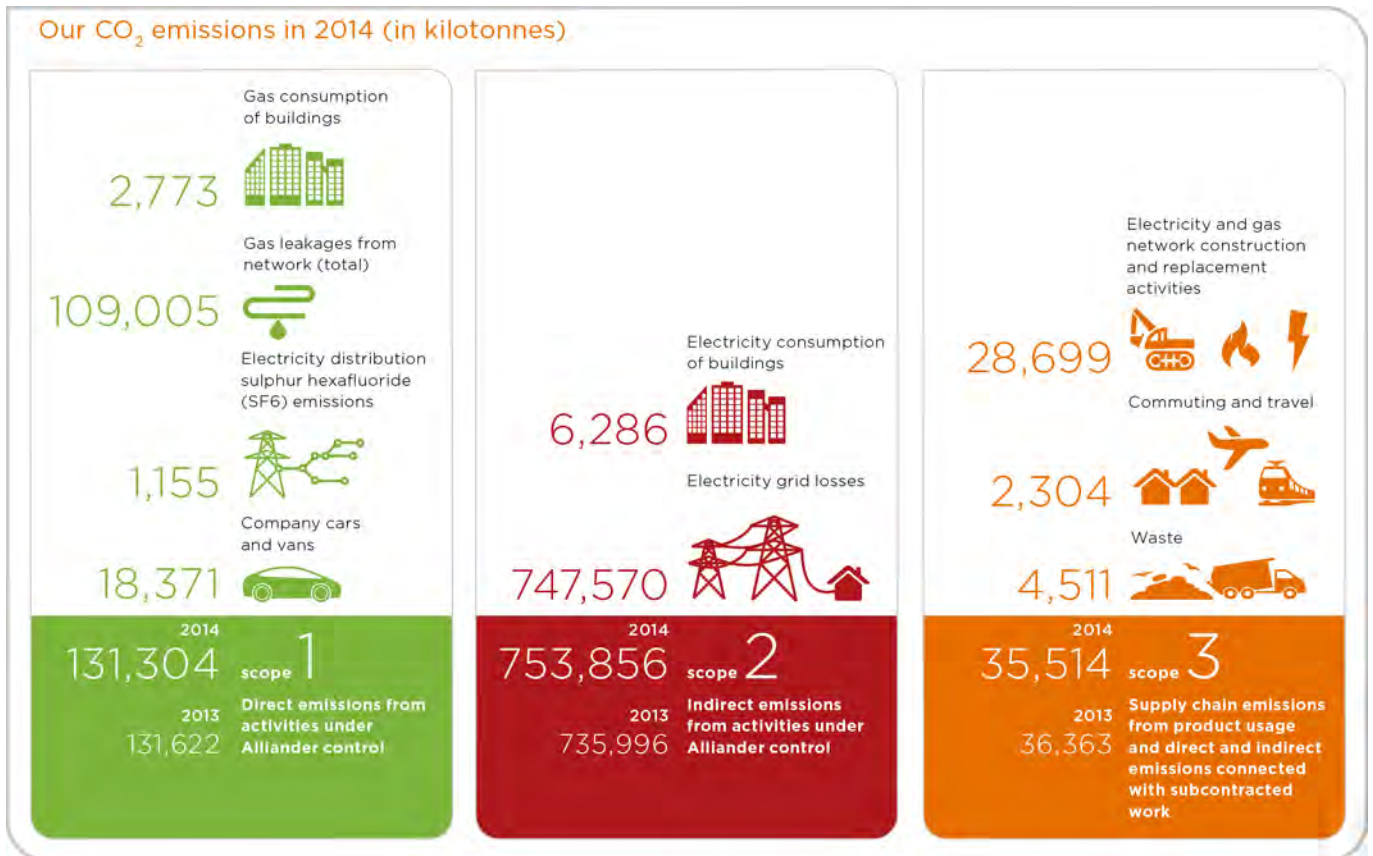
- **Transparency**

Alliander also takes part in the annual Transparency Benchmark, which the Ministry of Economic Affairs conducts among 500 companies. This benchmark indicates how transparent companies are in their reporting. In 2014, Alliander ended in 15th place (2013: 24th) and was the highest-placed company in the energy sector.

- **Great Place to Work**

Alliander has the ambition to be a top-class employer for its current and future employees, so that their expertise can be retained for the company on a permanent basis. Only an objective assessment can really tell us whether Alliander is a top-class employer, which is why we take part in Great Place to Work – an employer survey in which more than 100 Dutch companies participate every year. Based on the measurement in 2013, Alliander failed to earn a place on the Best Workplaces 2014 list.

Notes to CO₂ footprint



Scope 1 (direct emissions from in-house activities)

Our relocation programme is aimed at reducing the number of locations and halving our energy consumption by 2020. In addition, we seek to combine the redevelopment of existing buildings on an energy-neutral (or energy-positive) basis with a closed materials cycle wherever possible. All our corporate accommodation plans are carried out in cooperation with other companies to take advantage of any shared sustainability opportunities. During the current transition phase, we are using rented accommodation while one of our locations is undergoing redevelopment.

In 2014, we also replaced 200 kilometres of grey cast-iron pipes, thus preventing leakage losses in the gas network. This has reduced our CO₂ emissions by 1.8 kilotonnes. After a strong decline in 2013, our SF6 emissions increased by 33% in 2014. These emissions depend strongly on the number of newly built switching stations.

Scope 2 (indirect emissions from in-house activities)

We distinguish between two types of network losses that affect our CO₂ footprint: technical network losses and administrative network losses. Technical network losses arise in particular during the transmission of electricity and gas. The emissions due to technical network losses rose by 0.5% in 2014. During the year, we took the following emission-reducing measures:

- Opening of first sustainable substation. The energy consumption of the Lochem substation amounts to about 125,000 kWh; this is equal to the annual emissions of 38 households or 70 tonnes of CO₂. Owing to the application of sustainability measures, the substation is completely energy-neutral;
- Start of the Sustainable Asset Management investment programme. In the coming five years, we will invest €2 million per year in a package of CO₂-reducing measures, including the early replacement of old transformers and air conditioning systems at substations.

Causes of administrative network losses include vacant buildings, fraud and energy theft. In 2014, the administrative network losses increased by 5.6%, mainly due to an administrative settlement with our customers who feed electricity into the network. The following measures were taken to reduce the administrative network losses in 2014:

- better arrangements with suppliers in relation to vacant buildings;
- more intensive fraud prevention efforts. In 2014, 6% more fraud cases were solved compared to 2013.

The total costs for network losses are recognised in the financial statements. National figures on the transmitted energy volume and network losses can also be found on the website of the Association of Energy Network Operators in the Netherlands (Netbeheer Nederland).

Scope 3 (chain emissions from product usage and direct and indirect emissions from contracted-out activities)

In 2014, our electric car fleet grew to about 100 full-electric/hybrid cars. Unfortunately, a slight expansion of our car fleet caused our mobility-related emissions to rise by over 10% in 2014. A new mobility programme to improve this performance is due to start in 2015. In addition, of the 17,000 tonnes of waste generated in 2014, 12% less was processed compared to 2013. A lot of attention was also devoted to waste upgrading and recycling.

Our stakeholders are calling for more transparency on our supply chain emissions. This resonates well with our sense of responsibility for all emissions before and after us in the supply chain, such as during the production of cables and pipes and the processing of waste. In 2014, therefore, we analysed our supply chain emissions according to the latest guidelines of the Green House Gas protocol. We used data on the CO₂ emissions of our supply chain partners, such as our suppliers of components, IT and business services. This computation method provided us with a more detailed picture of our actual emissions at partners. Based on this method, our supply chain emissions increased to over 100 ktonnes. We also discovered that the components in our networks are particularly heavy emitters. This is caused by the use of scarce high-impact metals such as copper and aluminium in cables, pipes and transformers. In 2015, we aim to report the supply chain emissions according to the new method, which will provide increasingly transparent and accurate insight into the emissions throughout the entire supply chain.

Notes to risks

Our risk acceptance

- We seek the right balance between risks and long-term ambitions.
- The safety of our employees and our customers (our networks) have the highest priority.
- We make cost-benefit assessments to ensure the effective and efficient use of resources in our business processes.
- To preserve a solid financial basis and to fulfil our corporate social responsibility, we have a low financial risk appetite.

This explanation of the risks is an integral part of the annual report.

Legend

This explanation of the risks is an integral part of the annual report.

Decreasing ↓

Neutral →

Ascendant ↑

Internal risks

Data quality (Operations) ↓

What is the risk?

If the quality and integrity of these data are insufficiently assured, the reliability of our services may be compromised and our operating costs may become too high. We record information on the type of materials, dimensions and locations of our networks to continue ensuring their quality and availability. In addition, we know which administrative data are important for the effective provision of services to our customers.

How is it managed?

The asset data enhancement and purging plan that was initiated in 2013 continued to make good progress in the past year, including the implementation of a data risk approach for all asset data, the data quality dashboard and the data purging actions. Data governance (responsibilities and decision-making) was set up for asset data. We also carry out checks into the completeness of the data traffic processing by EDSN (Energy Data Service Netherlands, which is responsible for facilitating the handling of administrative processes between the various market parties) and we work according to the 'first time right' principle.

Voltage quality (Operations) →

What is the risk?

The quality of the voltage supplied by our network can be influenced both by the current quality of network components and by the consequences of the energy transition. The actions of customers themselves may also affect the quality of the network voltage (e.g. due to the equipment used).

How is it managed?

The preservation of good quality remains important, also now that solar panels, electric cars, heat pumps and other new technologies are increasingly connected to our network. Within Alliander we have therefore started up the Power Quality (PQ) programme to organise all activities relating to the quality of voltage and power. Through the Association of Energy Network Operators in the Netherlands (Netbeheer Nederland), we are cooperating with a sector-wide proposal for the introduction of voltage quality standards.

Large-scale incidents (Operations) →

What is the risk?

We want to minimise the risk of large-scale incidents affecting essential parts of our networks and/or the safety of our employees. Keeping our electricity and gas networks safe, up to date and future-proof for the benefit of our customers and our employees is a core task of our network operators.

How is it managed?

In 2014, we spent over € 700 million on the maintenance, expansion and reinforcement of the networks in order to maintain the quality and safety at a good level. We do this in a risk-based manner, looking at the impact for safety, quality of supply, customer & image, sustainability, legislation and regulations, and financial aspects. Important mitigating measures in 2014 were:

- **Replacement of grey cast-iron pipes**
Every year we replace between 150 and 200 kilometres of grey cast-iron pipes. In 2014, we carried out random inspections into steel connection pipes throughout our service area and replaced these wherever necessary.
- **Limitation of the scale of interruptions**
We set up a process to prevent escalations during power failures. Any loss of redundancy (the back-up in our high voltage network) due to a fault can be repaired within 10 days. The fault is resolved or contained even before customers notice. We also designed repair kits that can be used whenever interruptions occur.
- **Protection of critical assets and employees**
Together with partners in the sector, municipalities and the fire brigade, we take measures to protect our critical assets and employees against severe weather such as storms, heavy rainfall or drought (which would cause an increased fire risk). One result in 2014 was the development of a Nature Fire Control Plan in Arnhem. During bad weather, we also assess whether it is safe to send our employees out to repair power failures. Safety comes first.
- **Information management during calamities**
In 2014, we took the first steps towards introducing our crisis organisation to a new way of working that is also used by the emergency services: network-centric working. Information management is key to this approach. We conducted a market study to find an information management system that supports efficient and effective decision-making during calamities. As a result, we can act adequately and rapidly provide crisis partners, customers and the media with correct and relevant information.

Timely anticipation of the impact of the energy transition (Innovation)→

What is the risk?

The energy market is undergoing rapid transformation. We see three trends with an impact on network operators.

In terms of capacity demand, we see the advent of electric transport and the increase in the use of heat pumps. On the supply side, there is a growing trend towards renewable self-generation, particularly in the form of solar energy. This is still relatively limited, but a sudden acceleration is possible. Timely anticipation of the impact of these developments is important in order to continue meeting the energy demand in the future.

How is it managed?

Several scenarios were drawn up to determine the impact. In each scenario, it is clear that at least part of the network will be overloaded between now and 2030. Various possible future complications and challenges have been identified. Ahead of these developments, we will invest in the coming years in the digitisation of our networks (such as the smart meter and detailed analyses of our sub-areas). Our objectives are to increase our insight into customer needs, reduce the outage duration and frequency, prevent/postpone investments, reduce network losses and carry out maintenance work more efficiently.

External risks

Increasing spatial planning complexity (Operations) →

What is the risk?

The space available for our infrastructure is limited in densely populated areas, both above and below ground. Moreover, the requirements regarding the visibility of the above-ground infrastructure and proximity to residential areas are becoming stricter. This is making it increasingly difficult for network operators to find routes and locations for the infrastructure, which results in higher costs.

How is it managed?

We are intensifying our contacts with the stakeholders (such as local residents, municipalities, and provinces) and assessing the spatial planning developments. We have also recruited employees with a specific focus on the planning aspects of our asset management.

Cyber crime (Operations) ↑

What is the risk?

One crucial Cyber Crime development is the ongoing professionalisation of malignant viruses (malware). This is clear from the strong proliferation and improving quality of ransomware, such as Cryptolocker. This malware encrypts vital data on local disks and network disks, which are then only unencrypted on payment of a ransom. Viruses can enter our systems through the computers of employees. Cyber security is also a key issue because of the increasing digitisation of our energy networks. An extra focus on detection and rapid response is therefore imperative to keep our operations secure from attacks.

How is it managed?

We maintain a permanent integrated security management system that tracks and assesses risks and periodically tests the security measures. Our network is divided into zones in order to exclude and contain threats, such as attacks, intruders, undesirable content and viruses. Meanwhile, more than 80% of the Alliander employees have completed basic safety awareness training. And we work intensively with the central government's National Cyber Security Center to pick up external signals of attacks at an early stage. Alliander is also one of the founders of the European Network for Cyber Security (ENCS). We continue to monitor the rapid developments in the world around us to ascertain what initiatives we need to take in order to keep our operations as safe as possible.

Changing legislation (Operations) →

What is the risk?

Most of our activities are regulated. These concern the electricity and gas connection and transmission services and the metering services for small users. Substantial changes in legislation and regulations may compel us to adjust our ambitions or operations in order to remain compliant.

How is it managed?

We engage proactively in a dialogue with the government about legislative and regulatory developments relating to network operation and give our views on these developments. Our knowledge experts make scenario calculations and translate the outcomes into the possible impacts on our operations. In addition, we are working to enhance regulatory awareness within the organisation.

Sufferance tax (Operations) ↑

What is the risk?

The costs of sufferance tax – the municipal tax that Alliander is charged for using public land – is continuing to increase. In the past three years, these levies have risen by more than 50% and the costs are passed on in the tariffs. The local levies generically increase the tariffs for all customers, even though sufferance tax is only levied by a limited number of municipalities. For this reason, Alliander is opposed to sufferance tax.

How is it managed?

New legislation on sufferance tax has been in preparation for some time, but regulatory amendments have yet to take place. Until then, Alliander initiates proceedings wherever it believes that sufferance tax is unjustly levied.

Five-year summary

€ million	2014	2013	2012	2011	2010
Result					
Revenue	1,696	1,744	1,674	1,586	1,432
Total income	1,837	1,846	1,772	1,695	1,525
Total operating expenses	-1,327	-1,389	-1,378	-1,297	-1,195
Operating profit	510	457	394	398	330
Profit before tax from continuing operations	417	390	234	217	230
Profit after tax	323	288	224	251	222
Balance sheet					
Net working capital	-172	-94	-96	-112	-61
Property, plant and equipment	6,218	6,012	5,821	5,575	5,402
Total assets	7,672	7,548	7,414	7,318	7,400
Equity	3,579	3,375	3,203	3,079	2,906
Total interest-bearing debt	1,775	1,895	1,896	1,931	2,184
Total financing	5,354	5,270	5,099	5,010	5,090
Capital expenditure on non-current assets	572	576	583	479	371
Cash flows					
Cash flow from operating activities	623	683	545	557 ¹	508
Cash flow from investing activities	-410	-493	-498	-398	-340
Cash flow from financing activities	-201	-135	-53	-554 ¹	-118
Free cash flow	213	190	47	159 ¹	168
Ratios					
Non-current interest-bearing debt as % of total interest-bearing debt	91%	85%	100%	74%	99%
ROIC	6.3%	7.6%	6.9%	7.2%	6.9%
FFO/Net debt	34.0%	38.7%	30.9%	34.1%	32.7%
Interest cover	7.6	8.0	6.0	5.8	5.5
Equity as % of total assets less deferred income (solvency)	53.6%	51.1%	49.5%	47.5%	44.3%
Shares (as at 31 December)					
Number of shares issued (thousand)	136,795	136,795	136,795	136,795	136,795
Total number of shares, including unissued shares (thousand)	136,795	136,795	136,795	136,795	136,795
Other					
- Electricity					
Active connections as at 31 December (x 1,000)	3,078	3,063	3,087	3,057	3,020
New connections (x 1,000)	26	29	31	36	40
Cables laid (km)	816	904	1,160	1,167	883
- Gas					
Active connections as at 31 December (x 1,000)	2,658	2,649	2,644	2,630	2,607
New connections (x 1,000)	18	20	22	23	26
Mains laid (km)	136	160	196	206	205
- Volumes transported					
Electricity (GWh)	29,936	30,314	30,522	30,576	30,940
Gas (million m ³)	6,115	7,790 ²	7,461	7,039	8,746
- Other					
Number of disconnections (consumer and business market)	10,310	12,742	12,364	12,134	9,551
Facilitated supplier switches (x 1,000)	929	930	781	744	608
Annual electricity outage Liander (minutes)	19.9	24.0	24.5	20.0	31.2
Average number of permanent staff (fte)	5,908	5,878	5,675	5,430	4,975

1. The figures for 2011 have been restated in connection with a change in presentation to include the premium paid in connection with the early redemption of bonds in the cash flow from financing activities.
2. The transported gas volume 2013 has been adjusted for comparative purposes.

Definitions and abbreviations

abp	Pension fund for employees in the Dutch government, public and education sectors
acm	Authority for Consumers & Markets
bar	Unit of pressure still used for gas
cao	Collective Labour Agreement
cds	Credit default swap
ceo	Chief Executive Officer
cfo	Chief Financial Officer
chp	Combined Heat Power
cor	Central Works Council
csr	Corporate Social Responsibility
e-atlas	Energy Atlas
ebit	Earnings Before Interest and Taxes
ecp	Euro Commercial Paper
edsn	Energie Data Services Nederland
emtn	Euro Medium Term Notes
eu	European Union
ffo	Funds From Operations
fifo	First in, first out
fte	Full time equivalent
gj	Gigajoule; i.e. 1,000 MJ. 1 GJ is the equivalent of approximately 29 m ³ gas or 278 kWh
gprs	General Packet Radio Service
gw	Gigawatt; i.e. 1,000 MW
gwh	Gigawatt-hour; i.e. 1,000 MWh
hr	high efficiency
hv	High-Voltage
ias	International Accounting Standards
iasb	International Accounting Standards Board
ict	Information and communication technology
ifric	IFRIC Interpretations Committee
ifrs	International Financial Reporting Standards
iso	International Standard Organisation
j	Joule, the SI unit of energy
kcd	Quality and Capacity Document
kj	Kilojoule; i.e. 1,000 J
kpi	Key performance indicator
Kilovolt; i.e. 1,000 V	
kw	Kilowatt; i.e. 1,000 W
kwh	Kilowatt hour
lilo	Lease in, lease out
lv	Low-Voltage
mj	Megajoule; i.e. 1,000 kJ
mv	Medium-Voltage
mva	Megavolt-ampère
mw	Megawatt; i.e. 1,000 kW
mwh	Megawatt hour; i.e. 1,000 kWh
niat	Net Income After Taxes
ovv	Dutch Safety Board
roic	Return on Invested Capital
silo	Sale in, lease out
ssm	State Supervision of Mines
tj	Terajoule; i.e. 1,000 GJ
twh	Terawatt hour; i.e. 1,000 GWh
us	United States
usd	United States Dollar
viag	Gas Safety Instruction

w	Watt; SI unit of power
wacc	Weighted Average Cost of Capital
wbp	Privacy Protection Act (Wet Bescherming Persoonsgegevens)
wia	Work and Income according to Labour Capacity Act (Wet werk en inkomen naar arbeidsvermogen)
wkk	Combined heat and power (CHP)
wnt	Executives' Pay (Standards) Act (Wet normering topinkomens)
won	Independent Network Operation Act (Wet onafhankelijk netbeheer)
ww	Unemployment Act (Werkloosheidswet)

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Disclaimer

This report is a translation of the Dutch annual report 2014 of Alliander N.V.. Although this translation has been prepared with the utmost care, misinterpretations or deviations as a result of the translation process from the Dutch annual report may nevertheless occur, such that the information in this report may be misinterpreted or different conclusions may be drawn. In such cases, the Dutch annual report 2014 will prevail.

