

Annual Report 2018 I Contents 2

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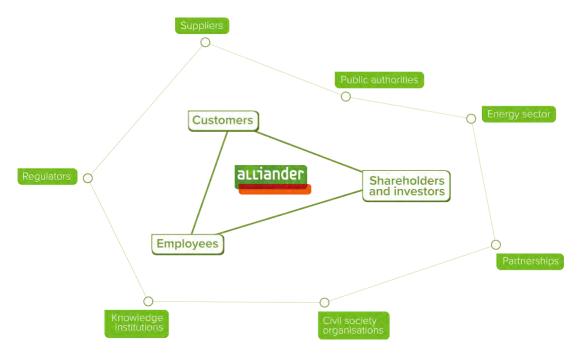
About this report

The Alliander annual report provides an account of our activities from 1 January 2018 to 31 December 2018. Key to our integrated reporting are an open dialogue with stakeholders, transparency and the impact of our activities on society. The annual report was published on 20 February 2019.

Stakeholder dialogue is the basis

We maintain an ongoing dialogue with all our stakeholders: customers, employees, shareholders, investors and others. After an intensive consultation tour of various municipalities in 2016 and 2017, our initiatives last year included regional master classes about the energy transition for municipalities. By maintaining a dialogue with all parties concerned we stay up-to-date on trends in society, expectations regarding Alliander and how we can work in unison to achieve a timely and successful energy transition at the lowest cost to society. We also exchange thoughts and ideas with our stakeholders, and seek feedback on proposed policy choices and decisions.

Stakeholders



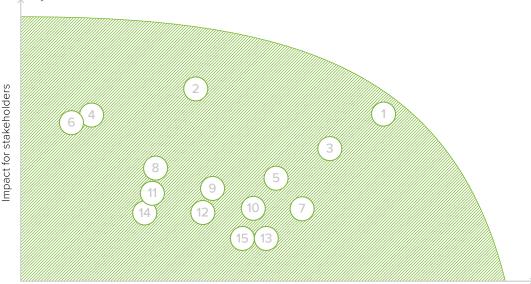
Material themes

We ask our stakeholders to tell us what aspects they want to see included in the annual report. The 15 highest scoring themes are the material themes and form the basis for the annual report. These high-scoring themes are set out below.

This year, we performed an analysis of social themes and their impact on our business operations and the communities in which we operate. The themes were looked at from two angles: their relevance from the perspective of the different stakeholder groups and their social and economic impact on our business and society. For more information, see the Materiality Test Appendix. In 2018, we saw a shift in the themes in the top of the list. In addition, some new themes were added, such as Responsible Communication, Privacy and Responsible Investment Policy. Themes that were not addressed included Innovation, Regulation & Tariffs and Climate Change.

When viewing the annual report online, you can click on each theme in the illustration below to open an explanation of that theme, its correlation with our strategy and the associated results. For the complete materiality chart including all the themes, please see Other information. The material themes are also discussed in Our performance in 2018.

Materiality chart



Impact for Alliander

- 1 Health & safety
- 2 Reliability of supply
- **3** Safe infrastructure
- 4 Innovative solutions
- **5** Satisfied customers
- **6** Facilitation of renewable energy generation
- 7 Training & Development
- 8 Data-driven network management
- **9** Responsible communication and information
- **10** Corporate Social Responsibility in the supply chain
- **11** Responsible investment policy
- **12** Corporate governance and business ethics
- **13** Workplace wellbeing
- **14** Access to energy
- 15 Privacy and safety of data

Integrated report

This annual report presents financial, operational and corporate social responsibility (CSR) information in an integrated manner. The underlying building blocks are:

- Relevant provisions in the Dutch Civil Code
- International Financial Reporting Standards (IFRS)
- Revised Dutch Corporate Governance Code 2016
- GRI SRS reporting guidelines ('Comprehensive' option), Electric Utilities Sector Supplement
- EU Directive on disclosure of non-financial information and diversity
- International Integrated Reporting Council (IIRC)

Process

- After an internal assessment, the draft report is sent to the Disclosure Committee whose members represent a broad cross-section of the company. These members discuss the report and their comments are incorporated.
- The Management Board then deliberates on the final draft version.
- After the comments have been incorporated, the members of the Audit Committee of the Supervisory Board
 discuss the final version of the integrated financial and CSR report and advise the Supervisory Board on their
 findings. The Management Board and Supervisory Board then sign the financial statements. Any comments are
 incorporated into the final version.
- The auditor certifies the report.

Stakeholder panel

In keeping with last year, a stakeholder panel read the report while it was being prepared. This year, we advanced that moment to December to have enough time to take any feedback on board in this annual report. The dialogue centred on Alliander's role in the energy transition, the interrelationship between the themes addressed in this report (connectivity), the value of impact measurements and the relevance of Sustainable Development Goals (SDGs) for the management of our organisation. The opinion of the stakeholder panel has been included in the report. We took their advice to invite readers to make a contribution to heart. In addition, we have explained our role in the energy transition in greater detail and have sought to engage the reader as a partner in this transition where appropriate. Finally, we further improved the connectivity of the report, for instance by adding a new connectivity table and a more explicit clarification of the material themes in the stakeholder sections.

Stakeholder involvement in Alliander Annual Report



Consolidation

The financial and non-financial information in the report has been consolidated for Alliander and the subsidiaries that have a significant impact on the material aspects. Where information has not been consolidated, this is explicitly stated. In addition, we have included information on other Alliander business operations that are mainly dedicated to the energy transition. The outcome of the materiality analysis was leading in the information-gathering process.

In accordance with the Disclosure of Non-Financial Information Decree and the Disclosure of Diversity Policy Decree, Alliander does provide information about certain non-financial and diversity aspects. For more information on the material aspects of the human rights theme, we refer to the relevant provisions in our Vendor Code of Conduct. The Corporate Governance chapter contains information about ethical business practices.

Transparency

Alliander operates in the complex dynamics of a rapidly changing energy sector. Our stakeholders attach great value to transparency, and so do we. In 2018, Alliander was among the leaders in the Transparency Benchmark 2018 of the Dutch Ministry of Economic Affairs and Climate Policy and was nominated for the accompanying Crystal Award. In line with our ambition to remain a leader in transparent reporting, we adhere to the following principles:

- We report based on GRI Standards (Comprehensive Option).
- We comply with the Transparency Guideline, the revised Dutch Corporate Governance Code and the Decree on Corporate Governance 2009.

The GRI Content Index accompanying this report provides references or details for all material themes.

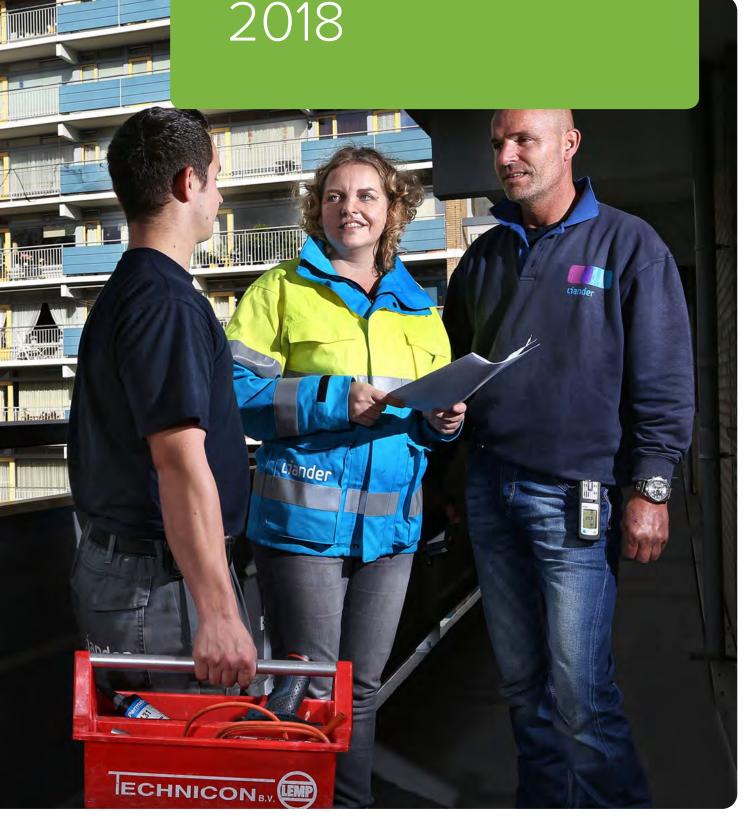
After the United Nations presented its sustainable development goals in 2015, Alliander took stock of the goals to which we could contribute the most. To find out more about these goals, go to the Sustainable Development Goals section. We are transparent as to how and what we contribute to achieving these goals.

Invitation to stakeholders and readers

In order to involve our partners in the energy transition agenda, we want to discuss with them their primary energy requirements and the best route forward to achieve these as early as possible. To this end, Alliander is keen to engage with stakeholders about the new energy system, the heating transition (and the replacement of natural gas) and new energy choices for customers. We are also eager to form coalitions to address the scarcity of technicians in the labour market, which is a society-wide problem. If you have any ideas or would like to have your say on themes such as the heating transition, a natural gas-free future or electric mobility, please contact us at communicatie@alliander.com.

We also cordially invite readers of the report to submit any questions, comments or suggestions they might have. These too can be sent to communicatie@alliander.com.

Our story in 2018



Our story in 2018

2018 was a year of operational challenges and solid financials for Alliander. The economy grew strongly and the energy transition gathered further pace. This resulted in a huge workload that proved difficult to handle at times. That is why we focused mainly on getting as much work done as possible, but also on innovations and smart solutions to prevent unnecessary work and costs.

The energy transition has a major impact on our energy networks. Looking to the future, it is vital that we educate ourselves about developments so that we can capitalise on them. That calls for in-depth and early cooperation with municipal and provincial authorities, and other partners within and outside the energy sector.

Everyone safely home

Safety comes first when working on energy networks, for our colleagues, customers and contractors alike. We deeply regret the injuries that two subcontractor engineers sustained while working for us in September in Amsterdam, as well as the injury that a bystander suffered during an interruption near Frederiksplein, also in Amsterdam. 'Everyone safely home' is and remains our ambition. In 2018, we commissioned investigations into the possible occurrence of benzene pollution due to small prolonged gas leaks and into the use of Chrome-6 paint on our installations. In both situations, we took measures to ensure our employees continue to be safe at work. Fortunately, the number of work accidents leading to absenteeism (relative to the number of hours worked) at Alliander was just as low in 2018 as in 2017.

Surging demand for connections and power

Thanks to the growing economy, demand for energy is rising rapidly. Our customers are requesting new connections and more electric power. In addition, the energy transition is gathering pace, with renewable energy being generated at more and more locations. The electricity grid was constructed 100 years ago for transporting power from coal-fired energy plants to consumers, but was not made to meet the huge demand for capacity from data centres, all-electric new-build areas and suchlike, nor was the grid designed to cope with large-scale feed-in from solar farms, particularly in rural areas. As a consequence, apart from connecting customers, we also need to upgrade or expand the network at multiple locations. Unfortunately, due to the huge workload coming our way, we were not always able to meet our customers' requests. That said, customer convenience as per the Net Effort Score remained stable in 2018: 38% for large corporate customers and 50% for small users (39% and 47% in 2017) by contacting customers early and completing more projects on time.

Getting the job done

There is an urgent shortage of technicians in the Netherlands. As in previous years, we put a lot of energy into recruiting technical staff in 2018. We hired 294 engineers last year, which is something we are proud of. Many of them will be trained to become specialists. To make sure they can handle any possible situations, they will be offered one-on-one mentorships by our engineers. To speed up the training process, we opened a practice facility in Leeuwarden where multiple technicians can be trained simultaneously. At this facility, realistic work situations can be simulated and trainees can gain experience dealing with all manner of contingencies. We plan to open more of these practice facilities.

Clearly, we can do more work with more employees, but it is even better to avoid the need for large expenditures and the associated work in the first place. That is why we also worked on smart and innovative solutions last year. One such solution was the transmission of wind and solar energy through a single cable, instead of two; a technique called 'cable pooling'. Another initiative last year involved the organisation of a flexibility market in Nijmegen-Noord, ahead of the completion of a new distribution station. The flexibility market matches supply and demand in order to prevent peak loads; this saves work on and investments in the network.

Projects

In 2018, we worked on several large projects in our service area. Some examples will serve to illustrate this. In Friesland, we carried out extensive works to reinforce the network for the connection of solar farms. And in the Haarlemmermeer area, where demand for extra capacity is growing explosively for greenhouse farming and data centres, we teamed up with TenneT, the local authority and residents to find a suitable location for creating extra capacity. TenneT was also our partner in Middenmeer, where we are building a new switching station with new cable connections for the Wieringermeer wind farm. Zaanstad saw the start of the development of a heating network that is going to utilise residual heating from various sources. Its stand-out feature is the open structure: all businesses with residual heating, suppliers and customers can make use of the network and the same rules apply to everyone.

Higher outage duration

The outage duration of our networks came to 30.6 minutes in 2018, significantly higher than in recent years. Apart from the exceptionally hot summer weather – the dry ground caused more defects to coupling sleeves, transformers and other network components – four major power interruptions accounted for the increased outage duration in particular. Great consternation was caused by an interruption in March 2018 when the Frederiksplein distribution station in Amsterdam was ravaged by fire and a flash flame shot from the pavement in the city centre. One person, unfortunately, was injured. Restoring the energy supply was a mammoth job and the task will not be entirely completed until well into 2019.

Climate Agreement

The draft Climate Agreement was presented in 2018. Alliander put a lot of effort into this agreement together with our colleagues of Stedin and Enexis and the Association of Energy Network Operators in the Netherlands. Nearly every aspect of the energy transition has an impact on the energy networks. Network operators have pressed for a systematic approach to prevent suboptimal solutions — and unnecessary costs that must be borne by everyone in the Netherlands. A systematic approach is vital so that everyone, including citizens, knows what will happen when and where. This is necessary to build society-wide support, without which the energy transition can never be achieved on time. Moreover, smart use of the existing electricity grid can help to keep costs within bounds. Over the coming months, the Dutch Cabinet will decide on the climate measures that are to be taken in the Netherlands. The real challenge lies in their actual implementation going forward.

Corporate Social Responsibility

Alliander has actively pursued sustainable business practices for years. Our ambition is to be climate-neutral by 2023. Our carbon emissions declined further in 2018, falling to 288 kilotonnes, partly by greening our grid losses. Last year, we signed a deal with Shell for the sustainable offset of more carbon emissions (about 11% to 14% more) from 2021 onwards. In addition, we are looking for ways to promote circularity. In 2018, for instance, we gave old transformers and returned materials a second lease of life. We also signed an eight-year contract for the delivery of more sustainable power transformers.

Diversity was another area of focus: our Step2Work programme offered jobs and apprenticeships to migrants with residency status, secondary school leavers and employees. The percentage of women in leadership roles continued to increase. Nearly 900 volunteers took part in the activities of the Alliander Foundation.

Allego sale

Alliander launched its subsidiary Allego in 2013 with the aim of creating a big enough EV-charging network to allow people to drive their electric cars with freedom and confidence, and to develop solutions to ensure that e-charging does not overload the electricity grid. Alliander found a buyer for Allego that endorses this vision. On 1 June 2018, Alliander sold Allego to Meridiam, a French investment company specialising in developing, funding and managing long-term and sustainable infrastructure projects. As a long-term international investor in infrastructure, Meridiam makes a good fit with Allego's activities and is perfectly positioned to support the company through its next phase of rapid international growth.

Financial results

Our financial position remained solid in 2018. Alliander's profit after tax came to \in 334 million (2017: \in 203 million). Profit excluding incidental items for 2018 worked out at \in 261 million, \in 55 million higher than in 2017. Total expenses showed a limited increase to \in 1,572 million (2017: \in 1,535 million) and Alliander's total investments ran to \in 731 million in 2018 (2017: \in 666 million). Alliander's good creditworthiness was reaffirmed by S&P and Moody's rating agencies.

Outlook

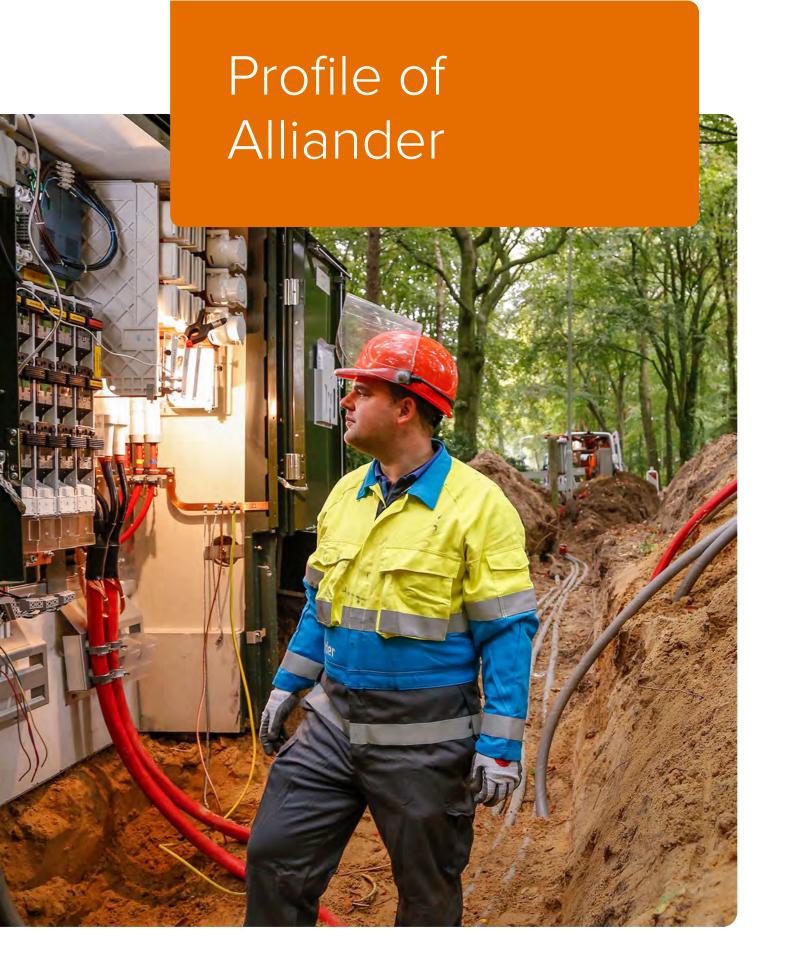
Economic growth is set to continue in 2019, albeit at a tempered pace compared to 2018. The energy transition will accelerate further this year. Crucially, 2019 will be the year in which we will prepare for the implementation of the upcoming Climate Agreement: all provinces and municipalities must have a Regional Energy Strategy (RES) in place in 2020, subsequently leading to the definition of a heating transition vision for each municipality. This calls for in-depth cooperation between municipal and provincial authorities, Alliander and other stakeholders. We share a responsibility for devising the best possible sustainable energy supply for each district in order to prevent unnecessary costs to society. In addition, the Regional Energy Strategies should form the basis for a plan-based approach, so that everyone knows what needs to be done when and where, preferably as far in advance as possible, so that licence application procedures can be completed on time and our scarce technicians as well as those of our contractors and construction and engineering firms can be put to work where they are needed most. As in 2018, Alliander will be happy to sit down with you to determine the best route forward. Together, we can devise smart solutions to keep the energy supply reliable, affordable and accessible for everyone.

Our employees drive our efforts to achieve these objectives. We are happy to see that they are working passionately every day to keep the lights burning and our homes warm, both today and in the sustainable future. We are extremely grateful to them for their commitment.

Ingrid Thijssen, Mark van Lieshout

Management Board of Alliander





Profile of Alliander

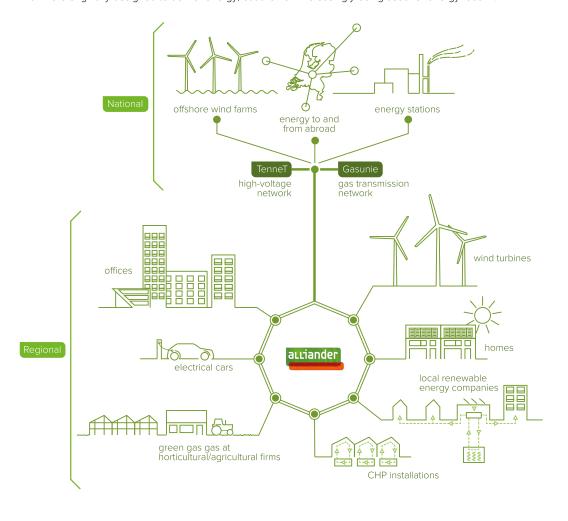
Alliander N.V. is a network company. We arrange for an energy supply where everyone has equal access to reliable, affordable and renewable energy in a large part of the Netherlands. The shares are held by provinces and municipalities.

Alliander consists of a group of companies, employing about 7,450 people (6,800 FTEs) in total, including agency workers. Together, we stand for high-quality knowledge of energy networks, energy technology and technical innovation. The shareholders of Alliander are Dutch provinces and municipalities. Together with them and our partners, we discuss our plans for the future and offer solutions to complex energy transition issues.

Our role in the energy chain

As a network company, Alliander is responsible for the regional distribution of energy, such as electricity, natural gas, biogas and heating. Alliander ensures that energy finds its way from generator or feed-in source to the end consumer, for instance from wind turbines to households or electric vehicle charging points.

Energy that we distribute comes from diverse sources, such as energy plants and wind farms, as well as from imports via the national electricity and gas grids operated by TenneT and Gasunie respectively. In addition, a growing number of consumers and businesses are feeding self-generated energy into our energy networks. The result is a dynamic interaction and interconnection between energy supply and demand. This puts an extra burden on our networks, which were originally designed to deliver energy, but are now increasingly being used for energy feed-in.



How we are organised



Liander

Network operation is our core activity. Network operator Liander keeps the energy infrastructure in good condition to ensure the daily distribution of gas and electricity to millions of consumers and businesses and to facilitate feed-in.

Qirion

Qirion (formerly Liandon) focuses on the construction and maintenance of intelligent energy infrastructures. The company also acts as a centre of expertise to assist Alliander in complex energy issues.

Kenter

Kenter supplies innovative solutions for energy metering and energy management. In doing so, the company supports business customers who want to operate in a cost-conscious and sustainable manner. This includes placing meters, supplying metering data and providing insight into energy consumption with online analyses. Kenter is responsible for the sale, construction, management and maintenance of mid-voltage installations in the free domain. Kenter rents out and operates switching installations, transformers, compact stations and mobile mid-voltage stations.

Energy eXchange Enablers

Energy eXchange Enablers (EXE) supplies smart digital solutions for the business market that enable customers to make sustainable energy choices and to exchange renewable energy.

Firan

Firan (formerly Alliander DGO) engages in the development, construction and management of alternative energy infrastructures, such as heating and biogas networks. To this end, it connects landowners, public authorities, energy providers and users to help them achieve their sustainability ambitions.

Alliander Telecom

Alliander Telecom supplies terrestrial and mobile services that are necessary to control and protect electricity and gas grids. Together with network company Stedin, Alliander Telecom operates a wireless data communication network that offers optimal coverage and data capacity for such tools as the smart meter. This network is operated by Utility Connect, a joint venture between Alliander and Stedin.

Alliander Germany

Alliander AG is a small-scale service provider and partner of network operators and municipalities in Germany. The company manages electricity and gas grids, public lighting and traffic lights in such areas as Berlin, North Rhine-Westphalia and Hessen. It facilitates affordable energy systems and helps communities with smart energy solutions. 450connect, which develops digital infrastructures, is a subsidiary of Alliander AG.

Other activities

Alliander's other activities comprise infrastructure and infrastructure-related activities. Alliander develops new initiatives and innovative solutions to limit the consequences of the energy transition for existing networks, so that these remain reliable and affordable and to ensure that fair access to the energy infrastructure remains guaranteed in the sustainable energy system. Read more about our other activities at www.alliander.com. For a full list of our subsidiaries, see Key subsidiaries and other associates in the financial statements.

In 2018, Alliander sold its subsidiary Allego to Meridiam, a French investment company specialising in the development, financing and management of long-term and sustainable infrastructure projects. Allego custom-develops e-charging solutions and infrastructure for municipalities, businesses and transport companies.

Name changes: Liandon and Alliander DGO are now Qirion and Firan

To ensure compliance with the Dutch Electricity Act 1998 and the Dutch Gas Act, the Netherlands Authority for Consumers & Markets (ACM) carried out an investigation into the names and logos of our business units Liandon and Alliander DGO. It concluded that these names and logos strongly resemble the name and logo of network operator Liander. Alliander promised the ACM to change the names and logos of Liandon and Alliander DGO. In 2018, Liandon was renamed as Qirion and Alliander DGO as Firan.

2018 in figures

Number of customer connections



 $5.7 \, \mathrm{m}$

5.7 m in 2017

Number of employees

5,669

5.755 in 2017

Electricity outage duration



30.6 minutes

21.0 minutes in 2017

Carbon emissions 1



 $288 \, \text{kton}$

416 kton in 2017

Revenue ²



1.9 € mld

17 € mld in 2017

Additions to property, plant and equipment



666 € m in 2017

Total assets



8.3 € bn

8 0 € bn in 2017

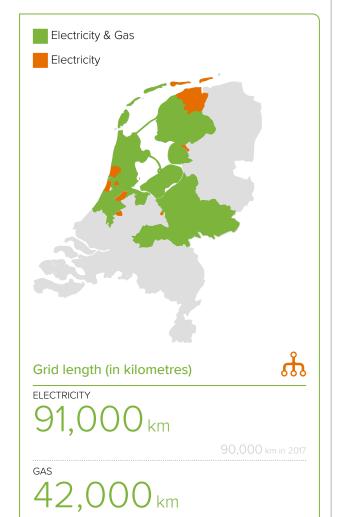
Operating profit



334€m

203 € m in 2017

Our service area



- 1 In 2018, carbon emissions were calculated according to a new method. This method uses a lower coefficient for the network losses at EDF and DONG. This coefficient was originally not known, so that an average (market mix) was assumed. A comparative figure based on this new method was included for 2017 with retrospective effect.
- 2 Owing to the implementation of IFRS 15 from 1 January 2018, the amortisations of the connection contributions have been reclassified from other income to revenue. The comparative figures for 2017 have been restated

Our mission

Energy is essential for our wellbeing and our prosperity. Energy enables us to heat our homes, cook, teach and communicate. It keeps our roads safe, our trains moving and our financial systems up and running. Energy, in short, enables us to live, work and travel.

Our mission

We stand for an energy system where everyone has equal access to reliable, affordable and renewable energy.

How we make the difference

Reliability

Customers must have safe and continuous access to energy, 24 hours a day, 7 days a week. That is why we adhere to safe working practices and avoid scheduled and unscheduled energy interruptions wherever possible.

Affordability

Customers want to pay as little as possible for their reliable energy supply. That is why we work daily to continue improving our operational effectiveness and efficiency.

Accessibility

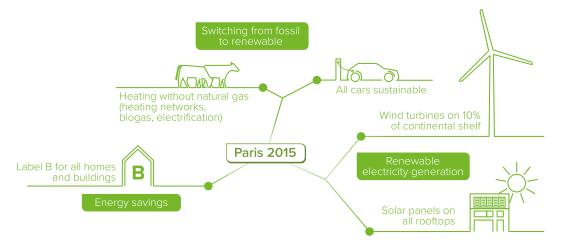
Customers must have equal access to the energy system. That is why we enable customers to choose their own energy supplier and service providers and to feed in energy.

Trends and market developments

In the pursuit of our mission, it is important that we know which factors can influence our activities. In this chapter, we describe key trends and market developments taking place around us and what we must do in response.

What we see around us

The world around us is changing. The economy is growing rapidly and customer expectations are rising. That's nothing new. But what is different this time is the accelerating energy transition. This transition is being driven by the Paris climate agreement of 2015, but also by the Netherlands' own ambitions to curb its carbon emissions by 49% relative to 1990 by 2030. In 2018, public authorities, businesses and civil society organisations drafted a joint proposal in outline for a national Climate Agreement. The aim is to further the achievement of the climate objectives. Acting on behalf of the Association of Energy Network Operators in the Netherlands (Netbeheer Nederland), Alliander represented the interests of the network operators in the climate panel talks about the Built Environment. Our main challenge is to prevent the energy infrastructure becoming a bottleneck in the energy transition. Alliander plays a crucial, but also extremely inspiring, role in this context.



Economic growth

The economy is growing considerably. The implication for Alliander is that a much larger number of new houses, businesses and buildings must be connected to the grid. Moreover, greater power capacity is required to facilitate the growth of businesses.

Energy transition

In practice, we are seeing that the energy transition is leading to much more local energy generation and usage: solar energy is becoming increasingly affordable and there are many plans for large-scale solar farms in the regions in which Alliander operates. Furthermore, various wind farms are being constructed and electric transport has become commonplace.

Farewell to natural gas

Initiatives to replace fossil fuels such as natural gas are springing up around the country. The obligation to connect new buildings to the natural gas grid was repealed on 1 July 2018. More and more municipalities are participating in the development of gas-free districts and more renewable forms of heating, such as electricity and green gas.

Digitisation

Digitisation opens up new opportunities for consumers and businesses to manage their utility bills and conserve energy. Network operators can benefit from digitisation to gain a better understanding of the consequences of the energy transition. In addition, digitisation offers new opportunities for the procurement, trade and exchange of energy.

Shortage of technical staff

A vast amount of electrical and gas engineering work is required to bring about the energy transition and meet the growing number of applications for connections and extra power. Tens of thousands of extra technical specialists are needed in the Netherlands. And due to the ageing population, technicians will remain in great demand for many years ahead. Filling the vacancies is a major challenge. In addition, the nature of the work will change, so that different skills will be required in the future. Owing to skills shortages, combined with the growing economy and accelerating energy transition, Liander is increasingly incapable of implementing connections or network upgrades as quickly as the customer wants or within the statutory 18-week term.

What is required?

The energy transition is accelerating. This poses major challenges for us as a network company. Over the coming twelve years, we expect to hook up large numbers of wind turbines, solar panels, hybrid heat pumps and e-charging stations. We also foresee that in the coming decades millions of households will exchange natural gas for another form of heating. During this transition to a more decentralised sustainable energy system, lights must continue to burn and homes must stay warm. This calls for substantial investments in our networks as well as a cost-conscious and efficient approach. Above all, it means a vast amount of work. It is essential for network operators to know well in advance what needs to be done to the infrastructure and where. For this reason, the network operators emphasise that the transition to renewable energy must be brought about in a controlled manner so that the energy system of the future remains affordable, reliable and accessible to everyone on equal terms. The arrangements in the upcoming Climate Agreement are crucial in this respect. All provinces and municipalities are required to have a Regional Energy Strategy (RES) in place by 2020, subsequently leading to the definition of a heating transition vision for each municipality. Under the direction of municipalities, a large number of parties including the network operators, will work on the transition to a sustainable energy system on a district-by-district basis. The network operators expect a lot from this approach, particularly as it will make the work easier to predict and manage. It is therefore vital for each municipality to come up with concrete long-term plans as soon as possible. With its knowledge and experience, Alliander has a crucial role to play in this process.

From trends to strategy

The trends, developments and issues in the world around us constitute the basis of our strategy. This describes how we as a company deal with the challenges of the changing energy system. Our strategy outlines how we respond to these new demands, while our SWOT analysis sets out where the opportunities and threats lie for our organisation.

Our strategy

The trends and developments signal that the drive towards a more sustainable energy system is accelerating. And the pace will continue to quicken. Our stakeholders expect us to make a substantial contribution towards the new energy landscape. To this end, we have a four-pillar strategy.

1. Support for customers in making choices

Customers are gaining more and more influence over the energy system. That is why we are offering them incentives to make choices that are not just good for them, but also for our energy system as a whole. More specifically, we need to make it attractive for customers to buy energy in times of abundance, sell energy in times of scarcity and refrain from using the energy network when energy consumption is high. To this end, it is necessary that customers can decide for every 15-minute or hourly time slot whether to use, sell or store energy. This is one reason why we started offering smart meters to our customers some time ago. But we are also working on solutions to help customers exchange energy among themselves.

2. New open networks

To create a new energy system at the lowest possible social costs, we must develop new infrastructures. It is crucial to ensure that these new infrastructures are accessible ('open') to everyone under equal conditions. Universal access makes these networks more affordable, as the costs can be shared among more users. Added to this, facilitating the energy market in this respect forms an important element of our corporate social responsibility. By 'open' we mean that customers are given the same type of connection as their neighbour and at the same price. They can choose whom they buy their energy from or whom they sell it to.

3. Digitisation

Our existing electricity and gas grids are not equipped for the effects of the energy transition. We are embracing digitisation to make our existing networks as future-proof as possible. ICT allows us to quickly detect and even prevent faults, make more targeted investments in networks and offer customers the data they need to make sensible energy choices. This is how we can restrict the need for network upgrades.

4. Excellent network management

Our energy networks are among the most reliable in the world. Thanks to efficient management and economies of scale, we are keeping the existing networks affordable. We also want to further increase the comfort our customers experience when we are carrying out work on their behalf. The trust of our customers is important, both to perform our traditional daily work and to realise our new network ambitions.

Focus themes

Our core task is clear: keeping the lights burning and homes warm, today and in the sustainable tomorrow. To keep pace with the accelerating energy transition, we need to make investments and set priorities. At the start of 2018, we sharpened our strategic focus on a number of key themes:

Completion of work package

Surging customer demand combined with the severe shortage of skilled technicians has made it increasingly difficult to complete our work on time. To mitigate this problem, we are focusing even more on the recruitment, training and retention of technicians in critical positions. In addition, we are also contracting out more work and pursuing operational improvements such as more reliable planning and forecasting, more efficient processes and even better collaboration.

Energy transition portfolio

The energy system is changing as a result of the energy transition. This could jeopardise the reliability, affordability and accessibility of energy. That is why we are seeking to create and actually implement innovations and smart solutions that will reduce the work on and investments in the networks within the next few years. In addition, we are working on alternative sustainable ways of using our gas grids, such as green gas and hydrogen gas.

Heating transition

The Netherlands is aiming to be a carbon-neutral society by no later than 2050. This involves switching about 2.6 million homes in 1,000 residential neighbourhoods in our service area over to a sustainable heating system without natural gas. To achieve this, we are seeking to cooperate with municipalities, housing associations, citizens, renewable heat suppliers and other local stakeholders to help them make district-by-district decisions about a new sustainable energy system. We are constructing heating networks as one of the alternatives for natural gas grids.

Cost-aware and efficient operations

The energy transition and growing economy call for extra investments in our networks. We are reducing our costs across the organisation in order to free up funds for these investments. For this reason, we are looking critically at what is really necessary to keep doing our work well, but in smarter and more efficient ways. In 2018, we started up a long-term cost-saving programme for this purpose.

Knowledge and tools for customers and network colleagues

We use our knowledge in an intelligent way for the benefit of others. Customers and our network colleagues ask this of us. This also unlocks extra sources of income that can help us meet the financial challenges of the energy transition, for instance by renting out transformers (Kenter), giving advice to business customers (Qirion Energy Consulting) or offering telecoms or software solutions (Alliander Telecom) that we have developed for ourselves to other network operators.

Risks

Alliander works hard to keep energy reliable, affordable and accessible for everyone. This work involves risks, including safety and financial risks. These risks cannot be entirely eliminated. However, risk management does provide insight into the risks, so that we can take informed decisions about these risks and risk management measures. In addition, risk management helps us tweak Alliander's strategy. Alliander uses a single risk management method. This ensures that the risk management process takes place in accordance with the same steps everywhere in the organisation.

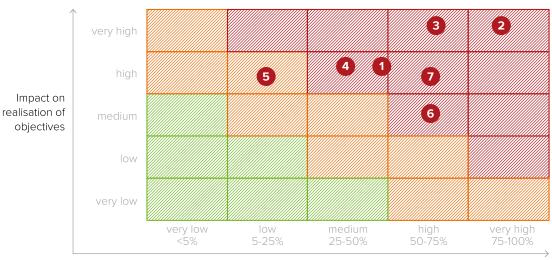
Risk levels

Risks can be subdivided into five categories, ranging from very low to very high. The risk category depends on two factors: the probability of occurrence and the impact on the achievement of our strategic objectives. The potential impact on our objectives is assessed based on various aspects. Based on their probability and impact, each risk is assigned a place in the risk matrix.

Our most important current risks (click online on an item for an explanation)

- 1 Safety →
- 2 Completion of work package ↑
- 3 Long-term regulatory focus →
- **4** Cybercrime **↓**

- **5** Privacy of energy data **↓**
- 6 Required capacity and competences **↓**
- 7 Anticipating and keeping up with the energy transition ★



Probability of occurrence

Risk awareness

The management of risks forms part of our governance and decision-making. The Management Board and Supervisory Board of Alliander regularly discuss the principal risks. They assess what effects the risks can have on the strategic objectives, the operations and our reputation. In 2018, Alliander's strategic risks were recalibrated in a session with the Alliander management team. Risk management is also a permanent item on the agenda for the other executive and management layers within Alliander.

Alliander is committed to complying with the guidelines from the revised Corporate Governance Code. The Corporate governance, Statement by the Management Board and Other information chapters provide more information on how risk management has explicitly been embedded in the company's governance and decision-making procedures. For more general information about risk management, go to http://www.alliander.com/.

Connecting risks to strategic pillars

	1 customer choice first	2 open networks	3 digitisation	4 excellent network management
1. Safety				•
2. Realisation of work package			•	•
3. Long-term regulatory focus	•	•	•	•
4. Cybercrime			•	•
5. Privacy of energy data	•			
6. Required capacity and competences	•	•	•	•
7. Anticipating and keeping up with the energy transition	•			

Risk appetite

To achieve the corporate objectives, we sometimes need to accept risks to a certain extent. The extent to which we are prepared to do so (our 'risk appetite') ranges from risk to risk.

- When it comes to the safety of our employees, our customers and our networks, we take no risk whatsoever. All
 risks are excluded, where possible and realistic.
- Our risk appetite is low when it comes to compliance. We are expected to comply with laws and regulations and want to act in accordance with internal procedures and the Alliander Code of Conduct
- · Where strategic risks are concerned, we seek the right balance between the risks and our longer-term ambitions.
- We have a low appetite for financial risks. This ensures that we have a healthy financial basis and meet our key financial ratios.

Explanation of risks

Below we describe what each risk entails, how Alliander manages the risk, any developments in the past year and the controls that are in place.

decreasing: ↓
neutral: →
increasing: ↑

Financial risks, including our credit risk, are explained in note 34 to the financial statements. For a detailed description of all our operational asset risks, we refer to the Quality and Capacity Documents (QCD) that we draw up every two years. (see www.liander.nl/kcd).

Safety →

Probability Medium/high

Impact

What is the risk?

WHAT IS THE TISK:

As a network company, we are responsible for the regional distribution of energy, such as electricity, natural gas, biogas and heating. These activities involve health and safety risks for our employees, contractors, customers and surroundings. Insufficient safety awareness and lack of knowledge of safe working instructions, quality and safety requirements and safety measures heighten the risk of accidents. Unsafe practices of third parties working on Alliandor's behalf can also lead to safety risks. In addition, materials used in Alliander's behalf can also lead to safety risks. In addition, materials used in the past may pose more serious health and safety risks than initially assumed.

How is the risk managed?

Our safety efforts are based on three themes: network safety, safe working practices and safety awareness. We assure the safety of our networks by practices and safety awareness. We assure the safety of our networks by making the mitigation of safety risks an integral part of our network maintenance and replacement planning. We ensure safe working practices by preparing our colleagues for their work on operational assets with instructions and training and requiring strict adherence to work instructions. Safe working practices are also maintained at our contractors by performing audits of their quality system. Finally, safety awareness is promoted by making safety an inherent part of our mindset and actions at work.

What is the risk trend?

Neutral. Safety is prominently on the agenda within Alliander: various controls are in place. Nevertheless, due to the nature of our work, the trend for this risk is neutral

Completion of work package 1

Probability

Very high

Impact Very high

What is the risk?

Owing to vigorous economic growth and accelerating energy transition, the workload is surging, rising more rapidly than expected, particularly in the field of electricity. At the same time, the tight labour market for technical staff (combined with the long training time) makes it difficult to scale up capacity at the same pace. As a consequence, we cannot do all the work that comes ou way, or not within the envisaged time frame. Some customers are connected later than hoped and technical network maintenance is sometimes postponed. This can have a negative effect on the outage duration.

How is the risk managed?

Alliander is addressing the challenge surrounding the completion of its work package by preventing more work, engineering more work and managing the risks of non-engineerability. To prevent more work, we gain a better picture of the customer's needs at an earlier stage and influence the customer's choices. Where possible, we form coalitions in the sector and the supply chain. We engineer more work by making our organisation smarter, improving our recruitment, training and retention of technical employees, outsourcing work and using smarter working processes. Finally, we are managing the risks of non-engineerability by meeting our customers' requirements as much as possible and communicating proactively and transparently.

What is the risk trend?

Increasing. Despite existing and ongoing measures, the risk is increasing, notably due to scarcity in critical technical labour capacity and growing

Long-term regulatory focus → Probability

High

Impact

Very high

What is the risk?

Policy and regulations within the energy domain have an impact on our activities and profitability. Owing to the energy transition policy, we are seeing a mismatch between regulations and reality. This may affect our ability to facilitate the energy transition and achieve the objectives of Alliander.

How is the risk managed?
This risk is basically managed by building long-term constructive relationships with the legislator and the regulator. Together with the legislator, we discuss developments that are important for Alliander and potential bottlenecks that Alliander may encounter in practice. We paint a picture of what is necessary for the adequate fulfilment of the network operator's responsibilities in the energy transition and seek official backing for a fitting role for our company in such developments as the transmission, distribution and metering of renewable gases and in heating. In addition, we actively make proposals for required adjustments to national and European laws and regulations. Where required adjustments to national and European laws and regulations. Where relevant, we address issues collectively with other network operators within the Association of Energy Network Operators (Netbeheer Nederland).

What is the risk trend?

Neutral. Policy involvement and regulations are increasing within the energy domain. Alliander is gradually gaining more clarity about the legislative agenda of authorities such as the Dutch Ministry of Economic Affairs and Climate Policy.

Cybercrime **↓**

Probability

Medium

Impact

Hiah

What is the risk?

Our energy networks and above-ground installations are steadily being digitised. Cyberattacks with a political or terrorist motive are increasingly targeting vital infrastructure. Alliander is expected to respond in a proactive and timely manner to the rise and changes in cybercrime. This is how we can prevent a successful attack on our digitised networks from jeopardising the continuity of our services. For this reason, we are continuing to take above-average measures to protect and safeguard vital infrastructure.

How is the risk managed?

We protect our energy and data networks and computers against attacks at various levels. We make our employees aware of cybersecurity risks, with a strong focus on prevention, detection and response. Alliander's security function was expanded further with the creation of a fully fledged security domain within IT. We are also addressing this issue extensively with other network operators within the Association of Energy Network Operators (Netbeheer Nederland) and maintain close contacts with the Dutch National Cyber Security Centre and other parties. Together, we can keep up with rapidly evolving developments and identify external signals of attacks at an early stage. early stage.

What is the risk trend?

Decreasing. The combination of evermore complex attacks and digitisation of our networks calls for increased cyber resilience within Alliander. This has greatly improved over the past period, so that we are better able to withstand these threats. This resilience is permanently adjusted and expanded.

Privacy of energy data •

Probability

Impact

What is the risk?

As part of our energy network management activities, we have access to privacy-sensitive data. such as connections, energy contracts, usage and costs. Violation of the privacy of energy data leads to penalties and reputation

How is the risk managed?

We work closely with the other parties in the energy sector to ensure the effective protection of privacy-sensitive data. Information is exchanged with regulators (the Netherlands Authority for Consumers & Markets and the Dutch Personal Data Authority), industry associations (the Association of Energy Network Operators and Energie-Nederland) and other parties.

Within its own organisation, Alliander has taken various initiatives to shield confidential data more effectively. The Alliander Code of Conduct, for instance, describes how we deal with confidential information and an email address has been set up for the disclosure of data breaches. Controls have also been put in place for processes that have been outsourced to Energie Data Service Nederland (EDSN). These include the use of unique customer keys to protect customer data. A GDPR scan has been carried out in the sector to identify all existing risks at EDSN as well as at individual and collective regional network operators.

What is the risk trend?

The risk is decreasing thanks to the implementation of effective controls.

Required capacity and competences •

Probability

Impact

What is the risk?

One of the main challenges for Alliander in our rapidly changing environment is to recruit and retain the right staff, particularly people in critical positions.

How is the risk managed?

Our labour market efforts and campaigns are fully targeted at scarce groups. Where possible, we also approach less obvious groups, such as lateral hires, people with reskilling potential and international candidates. We maintain close contacts with schools and universities to spot young talent and identify their wishes and expectations at an early stage. In addition, we are working with HR teams whose core task is to recruit the required capacity and competences.

What is the risk trend?
Decreasing. Alliander is increasingly able to find and retain people. the reason being that the energy sector is becoming more and more popular to work in.

Anticipating and keeping up with the energy transition 1

Probability

Impact High

What is the risk?

The energy transition is accelerating. Our society is in the throes of far-reaching electrification and the use of natural gas for residential heating is being phased out. As natural gas is being replaced by solar panels, wind farms, heat pumps and electric cars, many parts of the electricity grid need to be rapidly upgraded. But it is difficult to predict how quickly society will embrace the new energy system. The uncertainty surrounding the various energy transition scenarios (what will happen where and at what pace?) makes it harder than ever to accurately anticipate events. If we are not sufficiently flexible to deal with the uncertainty of different transition scenarios sufficiently flexible to deal with the uncertainty of different transition scenarios and their associated investments, and do not have sufficient alternatives to avoid network upgrades, we may make ill-advised investments, invest too late or too early, or develop unnecessarily complex products. Added to this, falling revenue from the gas grid may put the affordability of the energy system under further pressure. under further pressure.

How is the risk managed?

We manage the risk by seeking to increase our predictive insight into the future energy requirement in our regions and the impacts on our networks. This helps us to invest more efficiently and effectively. In addition, we are trying to exert a positive influence on the heating transition through a proactive customer approach. Innovative solutions enable us to prevent network upgrades and investments/disposals. Finally, we are sharpening our focus on capacity issues within Alliander

What is the risk trend?

Increasing. The energy transition is gathering momentum and applications for renewable feed-in are flooding in. The arrangements made in the upcoming Climate Agreement set out the increased level of ambition in more concrete

Our impact and value creation

As a network company, Alliander plays a significant role in the prosperity and wellbeing of millions of people. We work every day to secure a reliable and affordable energy supply that is accessible to everyone on equal terms.

Our ambition

Alliander has reported on its social impacts since 2015. We work continuously to improve the impact model and our social impacts. Our activities have many and varied social impacts on our surroundings: on the economic development of regions and stakeholders, on greenhouse gas emissions, on knowledge development and on the wellbeing of employees. We want to increase our positive impact, for instance by improving the wellbeing of customers and making the energy system more sustainable. In addition, we seek to minimise our negative impact, such as greenhouse gas emissions and waste.

Impact measurement

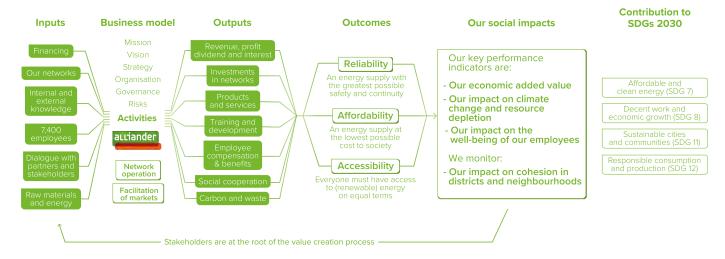
Impact measurement enables us to paint a balanced and quantitative picture of the significance of our activities. Through the insight gained in this manner, we gain a more accurate idea of our social performance and the extent to which we achieve our objectives. Internally, we increase our insight for better decision-making; externally, we demonstrate the social added value of our choices. Transparency about our impact allows stakeholders to gain a better understanding of our contribution to social developments. And it enables us to make better decisions about projects and activities.

Why quantify impact?

A reliable, affordable and sustainable energy supply is of great social and economic significance. For this reason, our choices for today and the future must be made with great care. Alliander plays various roles, including that of network operator, employer and responsible corporate citizen. In all these roles, we can make a meaningful contribution to society. When assessing the social contribution of activities, our main focus is currently on inputs (costs) and outputs (direct consequences). Impact measurements are performed to quantify and monetise the resulting effects. The main impacts concern economic value, prosperity, wellbeing, the environment and employment. Impact measurements also cast light on the interrelationships between impacts and on the levers we can pull to increase our beneficial contribution to society. Finally, impact measurements also give us greater insight into our contribution to the global Sustainable Development Goals. In this way, we make a direct contribution to better reporting on the progress made on the most important challenges in the world. We concentrate on 'affordable and clean energy' (SDG 7), 'decent work and economic growth' (SDG 8), 'sustainable cities and communities' (SDG 11) and 'responsible consumption and production' (SDG 12).

Value creation

To determine our social impacts, we have mapped out our value chain in the chart below. We try to quantify the social effects and our impact in a single unit wherever possible (euros). The online version of the annual report contains a <u>connectivity matrix</u> where the interrelationship with our value creation process can be viewed interactively.



Our steps in impact measurement

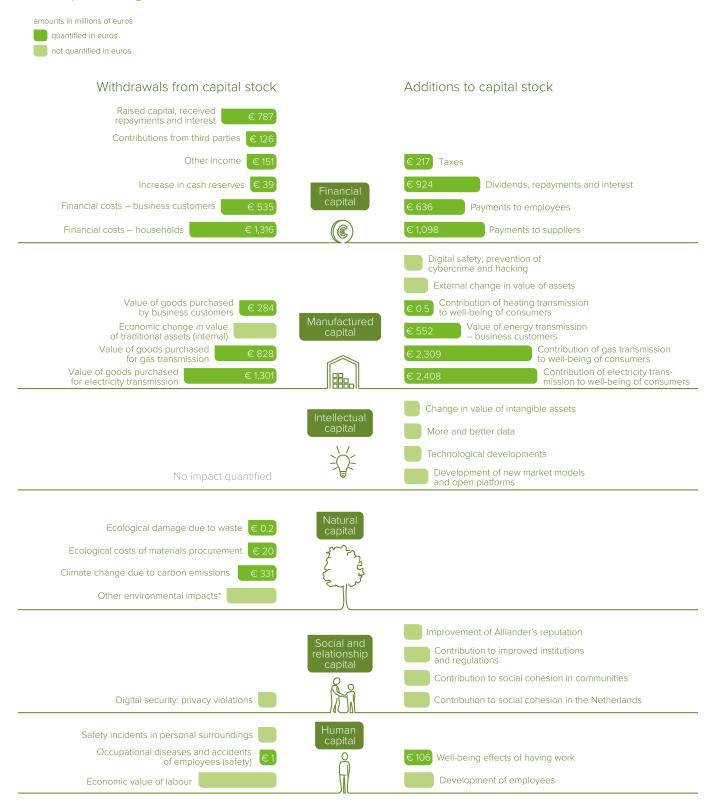
Alliander has quantified and reported on social impacts for several years now. One thing we do, for instance, is measure the significance of Alliander's activities and projects. Examples are the smart meter roll-out and the digitisation of electricity grids. Last year, we examined our impact on the wellbeing of employees and carried out two impact analyses at project level. In 2018, we further improved the impact model and brought it more into line with our strategy. We are now better able to determine what our contribution is to the wellbeing of households in particular. The larger-scale effects of energy feed-in into our networks and the contribution of heating networks to consumer wellbeing was quantified and monetised for the first time. The outcomes have been included under the heading 'Manufactured capital'. The effects today are still modest, but will increase in the future.

In 2018, we also further analysed and monetised the impact of circular principles on our materials costs, waste and carbon emissions. Recycling and reuse of our materials contribute towards a more efficient and cleaner economy. The calculation is included under the heading 'Natural capital'.

Sector model

More and more organisations are opting to calculate their social impact at project and organisation level. This increases their insight into their impact on society and helps them make better choices. There is a great need for more alignment of calculation methods and assumptions, both at national and international level. This would improve the reliability and sector-wide recognition of calculations. As such, it would help us to 'manage for social value'. Dutch infrastructure companies now also extensively share knowledge on underlying principles and aims. In 2018, Alliander, together with a number of network and infrastructure companies, laid the foundation for a sector model for impact measurements in the infrastructure and energy sector. In cooperation with CSR Netherlands, a qualitative description, or narrative, was drawn up about impact measurement. In describing the most important areas of impact for the national infrastructure sector as a whole, this narrative provides a firm basis for the further development of joint infrastructure impact measurements.

2018 impact at a glance



^{*} The other environmental impacts relate to unquantified effects on usage of scarce energy sources and materials, ecosystems and biodiversity, waste and soil, air and water pollution.

Alliander follows the 'six capitals model' of the International Integrated Reporting Council (IIRC). The illustration shows the relative size of Alliander's social impact. In the model, we mainly quantify and monetise the impacts to which we can make the largest contribution and, accordingly, have the greatest influence on our selected SDGs. The model has been tweaked in some respects compared to the previous report. The contribution of heating transmission for consumers was calculated for the first time. This was prompted by the ongoing heating transition, our role in this context and the decreasing role of natural gas. Our efforts to promote circularity of commodities and materials has led to an adjustment and tweaking of natural capital. The calculation concerns the losses due to waste and the ecological costs in the production of procured materials. The model distinguishes between two types of impact. On the one hand, we have impacts that occur entirely due to the activities of Alliander: the impact of grid losses, our own emissions and the wellbeing of our employees. On the other hand, there are chain effects: impacts for which parties in the chain are jointly responsible. One example would be the impact of energy transmission on the wellbeing of consumers and emissions from the consumption of electricity, gas and heating.

Impact measurement results in 2018

The results of the impact calculation show the (approximate) size of our impacts for 38 indicators. The size of 22 indicators was calculated and expressed in monetary terms. For comparative figures, we refer to Comparative impact figures for 2018 and 2017 in the Other information chapter. For the other indicators, we made a qualitative description and an estimate based on external sources. We would note that, in all cases, the size referred to is relative, i.e. the impact may be small at group level but large at individual level, such as with an accident involving a person.

Financial capital

Financial capital impacts indicate the funds flows of our stakeholders. The change for stakeholders is shown as incoming and outgoing cash flows. Regulated tariffs, other income and revenue give us the financial resources for investments in and maintenance of our energy networks. We thus withdraw capital from society to finance our activities. Through our role and position in the energy chain, we feed value back into society. We pay our suppliers for goods, services and assets. We generate work and income for other parties. Our employees receive a salary for their effort and time. On balance, our work stimulates the economy and generates long-term employment, income and prosperity.

Manufactured capital

The value for manufactured capital is made up of two components: the first consists of regulated tariffs for transmission and connection services as well as metering services for small users. These have been designated as exclusive statutory tasks of network operators. The second consists of the consumer surplus. i.e. the added value that customers are in theory prepared to pay above the price for a service or product. The prosperity value of energy transmission relates to all price elements in the energy chain, including taxes and the partly regulated prices for the supply and transmission of energy. The amounts shown as manufactured capital relate to the economic part of the energy value chain that is attributable to Alliander. The consumer surplus is currently the most common method for determining economic value, both for liberalised and regulated markets.

Energy transmission has a high prosperity value for society. Alliander's share in the value for consumers amounted to €4.7 billion in 2018. The value has thus decreased compared to 2017 owing to a decline in the use of natural gas. More and more consumers are feeding renewable electricity into the network. Alliander calculated the impact of this feed-in for the first time in 2018. According to our calculation, consumer feed-in had a positive prosperity effect of €9 million. If a quarter of the households connected to Alliander had solar panels, this impact would grow to about €14 million per year. Alliander's share in the value for business customers for electricity and gas transmission remained virtually unchanged. In 2018, we were confronted with a number of major power outages. The resulting substantial increase in our electricity outage duration caused a negative effect of €6 million. The impact of unregulated heating transmission on consumer wellbeing is modest. In 2018, the availability of heating led to an extra added value for consumers of €0.5 million.

Natural capital

On balance, the climate-related impact from our activities decreased from \leqslant 352 million in 2017¹ to \leqslant 331 million in 2018. This drop resulted from the decrease in the energy consumed by end users and the greening policy for our own carbon emissions. The monetised impact of our own carbon footprint came to \leqslant 32 million in 2018, mainly due to our grid losses. For more details, see Our sustainability performance in the Shareholders and investors chapter. As in

¹ Based on a recalculation in 2017 the amount of natural capital is adjusted to €352 million.

2016/2017, the main negative impact was caused by our position in the Dutch energy chain, which still contains a large fossil-based generation component. By reducing the negative impact of carbon emissions, we make a long-term contribution to national and international climate commitments.

At the same time, our core activities such as network management make inroads into scarce resources of our planet. We took stock of our contribution to materials circularity for the first time in 2018. The procurement of goods and materials and the extent of recycling and reuse are expressed in an ecological cost indicator for materials procurement. The indicator shows that our company runs up €20 million in ecological costs as a result of materials usage. This amount is strongly dampened by the extensive use of recyclable materials. Aluminium (3,400 tonnes) and iron (2,600 tonnes) account for the biggest volumes of our materials procurement. The large weight percentage of waste materials that is recycled or reused leads to a limited negative impact of €250,000 of waste-related ecological damage. Against this, there are environmental impacts that we do not quantify. These include the impact of constructing sustainable heating networks.

Human capital

On average, people who are in work tend to experience a greater sense of wellbeing than those who are unemployed. Alliander contributes to the wellbeing of employees by offering rewarding and fulfilling work. Work is not just about income. Immaterial factors matter too. In 2017, we calculated the wellbeing effect of having work for the first time. This concerns the direct non-financial benefits that employees derive from having paid work. The analysis shows that immaterial factors such as appreciation, contact with colleagues and customers, and the structuring effect of work represent a positive impact value of €106 million (2017: €108 million). We started measuring the value of immaterial factors of work some years ago and are seeing that these have a substantial long-term social effect. This comes on top of compensation and benefits, which are included in financial capital.

The analysis shows that the loss of wellbeing and happiness due to work-related accidents and sickness amounts to €1 million (2017: €950,000). This impact value is relatively small compared to the positive impact of having work. No major changes in the data occurred in 2018. Safety and prevention of work-related complaints are a constant priority for Alliander. As an employer, we always aim to make a positive contribution to the wellbeing of our employees.

Social capital

One important impact of an energy network operator is the contribution towards social cohesion in residential areas. High social cohesion ensures that local energy initiatives are broadly supported. In addition, participatory projects result in solutions that are better aligned with local needs. As decentralised generation increases, so will the importance of local projects. This change occurs at various levels. New parties are collaborating in innovative partnerships to set up local sustainability and energy-saving projects. Greater local involvement in energy issues is expected to galvanise new social interaction in other areas as well. Losses resulting from the unsecured exchange of privacy-sensitive information must be avoided in order to limit the risk of negative social impacts.

Intellectual capital

Alliander invests time and money in its network operations of the future: the digitisation of our networks, the use and application of data and new business and market models for the energy transition, and alternatives for natural gas. This creates intellectual capital for Alliander and its stakeholders. This capital comprises the stock of immaterial manmade goods. New open infrastructures for heating networks, for instance, not only enhance our own knowledge and expertise but also unlock new market opportunities for other businesses. The quantification and monetisation of intellectual capital calls for reliable historical data and informed choices. We intended to examine and explore this in further detail in 2018. Instead, however, we gave priority to the social impact cases for heating, circularity and energy feed-in.

What have we learned?

Collaboration with our knowledge partners has produced new insights into the consequences of our activities. Reliable network management is a source of great and constant financial and economic value for Alliander. Our impacts on the wellbeing of customers through the management of heating networks have been quantified in more detail. We have learned that procurement of goods and materials in combination with data on waste and reuse form a good starting point to measure the impact of our results on the circular economy. We have thus identified variables that influence the impact of our actions on natural capital.

The impact measurements continuously force us to make robust assumptions about such aspects as expected carbon impacts. This is the way to deal with uncertainties that inevitably arise when making estimates of indirect and complex impacts. In 2018, we started to develop a sector model for impact calculations with a broader coalition of companies.

Our plans for 2019

Alliander is continuing to improve its impact model in order to increase its positive social impact in the future. This aim reflects our growing role in districts and neighbourhoods where we work together with municipalities and housing associations to explore alternatives to residential and spatial heating. Together with other network operators, we are working out the details for a widely supported sector model. Thanks to this collaborative approach, the model can be developed faster and with more robust coefficients. We also want to use our impact model more to make better-informed choices as to new developments and investments.

Sustainable Development Goals

In 2015, the United Nations adopted a new global agenda to end poverty, inequality and climate change. This agenda sets out the Sustainable Development Goals (SDGs) for 2030.

The Netherlands has endorsed these global goals. Government, politicians and companies are currently working out their contribution in more concrete detail. Statistics Netherlands reports from time to time on the progress made on the global goals. Energy network operators play an essential role in assuring safe, affordable and continuous availability of energy as set out in SDG 7.

Alliander and global goals: influence is key

For our own organisation, we have analysed how Alliander can best contribute towards the achievement of the SDGs. Where is our greatest impact and where can we achieve the greatest gains? To this end, we reviewed our operations, core activities and entire value creation process to ascertain which SDGs best match both our own initiatives, objectives and strategy and our stakeholders' expectations. We identified four development goals that Alliander is focusing on and actively pursuing.

Our contribution to SDGs: impact-driven strategy

Affordable and sustainable energy (SDG 7)

Affordable and clean energy is the most important SDG for our company. This SDG largely coincides with our mission and strategy: an energy system that gives everyone equal access to reliable, affordable and renewable energy. In this report, you can read how we work every day to keep pace with the energy transition by encouraging smart customer choices, making maximum use of digital opportunities, creating open networks (i.e. efficient markets) and operating efficiently, while simultaneously ensuring that we invest smartly and keep costs as low as possible.

This has a direct correlation with the economic value of our infrastructure for our customers (manufactured capital) and

our chain emissions (natural capital). In the future, we want to gain a more accurate picture of this impact.

Decent work and economic growth (SDG 8)

We work permanently to ensure a safe and fair working environment for all our employees as well as an inclusive corporate culture (see Employees). We need all talents to do our daily work well and bring the energy transition to a successful completion. We want Alliander to reflect a representative cross-section of society. We make arrangements about employees at a distance from the labour market and employ many women in leadership positions. This has a direct correlation with the wellbeing effects for our employees, which we calculate each year (human capital).

Sustainable cities and communities (SDG 11)

Ultimately, all municipalities in the Netherlands will switch over to renewable energy. Central government is urging municipalities to develop concrete strategies and district plans. Our task is to assist municipalities in this process and to programme and implement changes as well as possible (see Customers). By enabling energy feed-in on a day-to-day basis and connecting a growing number of charging posts for electric mobility, we are also contributing towards the sustainability of our cities.

These activities have a direct correlation with our chain emissions (natural capital) and the social cohesion in districts and neighbourhoods (social capital). We intend to gain a more exact picture of our impact on our chain emissions in the future.

Responsible consumption and production (SDG 12)

We are acutely aware of the impact of our operations on the planet. That is why we are committed to climate-neutral and circular operations. We invest in low grid losses, highly sustainable buildings and a clean vehicle fleet.

Transparency and circularity are key requirements in the procurement of all our materials (see Shareholders and investors).

This has a direct relationship with our ecological and climate change costs (natural capital). This year, we monetised both impacts for the first time.

For a more detailed overview of our contribution to the SDGs, see the explanation of the SDGs.





We stand for an energy system where everyone has equal access to reliable, affordable and



Our employees provide a reliable energy supply. We offer them a safe and healthy working environment that they can be proud of



We support our customers in the built environment with their transition to a sustainable energy system



Alliander is working on socially responsible operations (also in the value chain) and supports sustainable area development

Promoting SDGs

Internally, Alliander is working to promote awareness of the SDGs and explore more connections between our strategy and the global goals. Particularly noteworthy is the Manifesto that Alliander's LHBTi network PRIDE initiated during the Workplace Pride Congress in May 2018 to attract more attention to inclusion and diversity within the SDGs. At the National Sustainability Congress 2018, 15 companies signed the Manifesto, which calls upon organisations to define the position of LHBTi persons inside and outside their organisation in their SDG policy. This is how Alliander advances the recognition of this group in its diversity policy while also promoting decent work(SDG 8).

Ambitions for the coming years

Serving society is at the heart of our mission and strategy. The energy transition forms a key part of this: we are working on the 'sustainable tomorrow'. Our operations are in line with this sustainable course. The global goals are an important point of reference. The further operational integration and implementation of SDGs is fundamental to our mission, as is rigorous monitoring, measurement and reporting to ensure adequate compliance.

Affordable and clean energy and sustainable cities

We actively contribute to the national Climate Agreement based on our role in the energy transition. Our role in the built-up environment and beyond is changing. But our crucial mission remains to ensure reliable, affordable, accessible and, increasingly, renewable energy. We see opportunities and threats for the proper regulation of the heating and energy storage market, flexible markets, the technical and regulatory feasibility of smart connections, further system integration and the prevention of network problems. Via our chain partners, we want to continue making a contribution to a sustainable energy system at low costs. We intend to provide a more quantitative analysis of our overall contribution in 2019.

Responsible production and consumption

Our economy is entirely modelled along linear lines: take, make, waste. Despite certain shifts, global production still revolves largely around new commodities, mainly from Asia and South America. Owing to reverse logistics and the composition of products, 'new' is even cheaper than 'used'. We also see that scarcity is beginning to arise in materials that are critical to our operations (copper). Another challenge in many production chains is transparency. Within the Green Networks Project, we are working to make the materials passport obligatory in the infrastructure sector by 2020. The accessibility and improvement of materials information in the sector contribute to the circular economy. Regarding energy usage, we see a movement towards the voluntary adoption of carbon pricing among companies and sectors. This applies to many network operators. But the chosen carbon price is still arbitrary. Our ambition is to gradually work towards a harmonised policy for fair carbon pricing among network operators.

Decent work

Our efforts for SDG 8 (Decent work) are aimed at reinforcing and retaining access to work for all groups. Inclusive employment – aimed at diversity, appreciation, division of and access to work, safe conditions and full use of talent – is an important theme for us. We support the efforts of the 'Diversiteit in Bedrijf' and 'Talent naar de Top' platforms to put diversity on the agenda in the Netherlands. We are working on sector-wide arrangements within the infrastructure sector to ensure equal access to the labour market.



Objectives and results

Safety

Objectives for 2018	Performance in 2018	Objectives for 2019	Strategic objectives	Principal risks ⁵
LTIF (lost time injury frequency)	LTIF: 1.4	_1	Safety is key to our operations.	
Safety culture	38%	_2	We create a proactive safety culture.	Safety
Active safety culture percentage is 100%.				

Customers

Objectives for 2018	Performance in 2018	Objectives for 2019	Strategic objectives	Principal risks ⁵
Customer convenience. Customer convenience measured by the NES score is	Consumer: 50%	Customer convenience measured by the NES score is higher than 50% (consumer market) and 40% (business	Customer satisfaction in consumer and business markets will continue to rise in the coming years.	
higher than 51% (consumer market) and 46% (business market).	Business: 38%	market).	conning years.	-Realisation of work package
Electricity outage duration ³ .	30.6	Maintain low outage duration. The objective is a maximum of		-Cybercrime
Maintain low outage duration The objective is a maximum of 20 minutes.		22 minutes.	The objective is a high reliability of supply.	-Privacy of energy data -Required capacity and
Repeat outages.		The number of unique cable	The number of unique cable	competences
The number of unique cable numbers with more than five interruptions is 17 or lower.		numbers with more than five interruptions is 17 or lower.	numbers with more than five interruptions is 17 or lower in the coming years.	/e -Anticipating and keeping
Offering smart meters	644,000	We offer smart meters to 585,000 addresses.	By 2020, everyone has been offered a smart meter.	
584,000		505,000 dudiesses.	onereu a smart Meter.	

Employees

Objectives for 2018	Performance in 2018	Objectives for 2019	Strategic objectives	Principal risks ⁵	
Great Place to Work employee survey score of at least 75.	70	In 2019, we aim for a score of 71 in the Great Place to Work employee survey.	Top-class employer: an innovative and successful company where we develop future-oriented knowledge and competences.		
Employee absenteeism. Maximum absenteeism rate is	4.7%	Absenteeism rate is 4.3% or lower.	The maximum absenteeism rate is 4.3% in the coming years.		
3.9%. Women in leadership positions.	28.8%	At least 29.3% of all leadership	At least 33% of our leadership		
	20.0%	positions are filled by women.	positions will be filled by women		
At least 27.8% of all leadership positions are filled by women.			by 2024.	Required capacity and competences	
Employees at a distance from the labour market. Offering 100 apprenticeships to people at a distance from the labour market.	95	Offering 100 apprenticeships to people at a distance from the labour market. At least 58 of these places comply with the Labour Participation Act.	We offer long-term work to people at a distance from the labour market who meet the criteria of the Labour Participation Act. In addition, we offer work experience placements, internships and other learning experiences for a broad target group. We will meet the requirements of the Dutch Labour Participation Quota Act by 2024.	competences	

Shareholders and investors

Objectives for 2018	Performance in 2018	Objectives for 2019	Strategic objectives	Principal risks ⁵
Retention of solid rating	S&P AA-/A-1+/stable outlook Moody's Aa2/P-1/stable outlook	Maintain solid A rating profile		
Maintain solid A rating profile				
FFO/net debt	32.2%	FFO/net debt objective: > 20%	Our objective is to remain a creditworthy company.	
objective: > 20%			Continuously outperform the	
Interest cover	12.9%	Interest cover objective: > 3.5	sector in terms of costs and operational excellence. Solid	
objective: > 3.5			results compatible with the	
Net debt/(net debt + equity)	33.8%	Net debt/(net debt + net equity) objective: < 60%	regulated permitted return.	
objective: < 60%				Long-term regulatory
Solvency objective: > 30%	57.3%	Solvency objective: > 30%		focus
Carbon emissions from business operations	288 ktonnes	Carbon emissions are capped at 277 ktonnes (based on a sectorwide calculation method)	We want our operations to be climate-neutral operations by 2023.	
Carbon emissions are capped at 333 ktonnes (based on a sectorwide calculation method) ⁴				
Circular procurement ⁶	16.5%		40% of our primary asset procurement will be circular by 2020.	-
10.0% of all our primary asset procurement is circular		procurement is circular		

¹ No target is set for the LTIF performance indicator because the number of accidents leading to absenteeism should be zero.

² With effect from 2019, the active safety culture percentage will no longer be included as a performance indicator in the Alliander dashboard.

³ The figure for electricity outage duration differs from the figure stated in the regulatory report because interruptions in the high-voltage network (CBL assets) owned by Alliander are taken into consideration in the regulatory report.

⁴ The ${\rm CO_2}$ emission target for 2018 was recalculated according to the most recent emission factors.

⁵ The Risks chapter clarifies the risks in more detail.

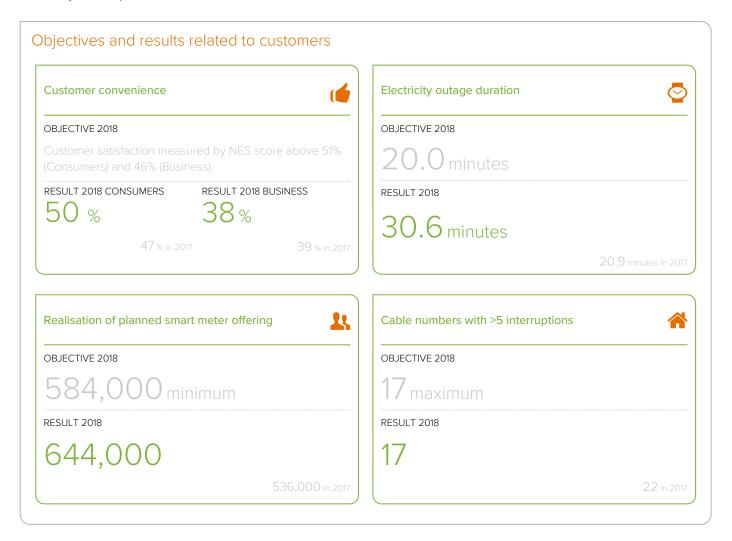
⁶ The scope of the KPI comprises primary assets: LS & MS cables, gas pipes, distribution and power transformers, and (smart) electricity & gas meters.

Customers

Our customers depend on an infallible energy supply to light and heat their homes, charge their smartphones, run other devices, and – to an increasing extent – power their electric cars. In addition, more and more customers are generating energy for themselves or feeding energy back into the grid. They also need to be able to depend on a good infrastructure and excellent service.

This chapter is about what we do for our customers. Its structure is based on our strategic pillars. Customers have indicated that the following material themes are important to them (the figures correspond to the positions in the materiality matrix):

- Reliability of supply ②
- Safe infrastructure ③
- Customer satisfaction (§)
- Facilitation of renewable energy generation ©
- Access to energy (4)
- Privacy and data protection



Energy must be available at all times, and it must be accessible to everyone on equal terms. This is what we stand for. Alliander has over three million customers and ensures they can light and heat their homes at all times. Companies also count on us. We can only live up to their expectations by aligning our services to the demands and needs of our customers and by excelling in reliability and convenience.

Economic growth and energy transition create more work

Over the past few years, we have seen a sharp increase in the amount of work on our electricity grid in particular, and 2018 was no exception. This was attributable to the growing economy, which meant there were many customers we needed to connect. We also saw growing demand for capacity from customers such as data centres and market gardeners, for example. In some places, the number of solar parks for which a network connection was requested exceeded the connection capacity. At the same time, we had to deal with a major shortage of technicians who could perform all the work. This had an impact on the work that we could carry out for our customers. We were not able to complete all the work on time, and sometimes it took longer than usual to connect customers to the network. Since we want to continue to guarantee the availability of energy, completing our work package is one of our focus areas. For us, being aware of our customers' needs at an early stage, and maintaining a dialogue with our customers, is more important than ever. We are honest with customers about what is possible, and what is not, and we accurately anticipate customer expectations. Furthermore, we can make our organisation and operations more flexible and effective, and collaborate with other parties, utilities and contractors more flexibly and effectively. Given this, costaware and efficient operations is another focus area.

Energy transition in full swing

During the year under review, the draft Dutch Climate Agreement was presented. This landmark event set out various goals for a sustainable future. We noted that the negotiations leading up to this draft agreement resulted in greater awareness of the task to be accomplished, as well as the role that the energy infrastructure will play in this. Although the Dutch Climate Agreement still needs to be finalised, many of our customers have already noticed that the energy transition is in full swing. There are more and more solar panels, possibilities for charging electric cars and new-build homes without gas connections. All provinces and municipalities must have a Regional Energy Strategy (RES) of their own by 2020, which will then be turned into different visions on the heating transition for each municipality, based on a district-by-district approach. Alliander assists them with this by sharing our knowledge and experience. The heating transition is one of our focus areas.

Innovation

Upgrading the entire electricity grid is not advisable due to the high cost to society. In view of this, during the year under review, we continued to work on alternative, innovative solutions, in order to avoid unnecessary costs for our customers. Smart design can be used, for example, to make the network more sustainable with fewer cables. This can be achieved by installing shared connections for wind farms and solar parks that are located near to each other. Another principle involves the use of a flexibility market for the smart matching of electricity supply and demand. We also investigated options for capping peak loads and using existing storage capacity, such as batteries in electric cars. Digitising our networks has enabled us to prevent outages, deal more quickly with those outages that do occur, and improve the availability of energy for customers. We can also use digitisation to streamline our customer processes. We offer online services that make it easier to contact us and allow customers to arrange more matters for themselves. The energy transition portfolio is one of our focus areas.

Our approach

Our strategy is aimed at ensuring the energy supply of today and tomorrow. We are seeking to create value for our customers through an approach based on four strategic pillars. This part of the annual report explains these pillars in more detail.

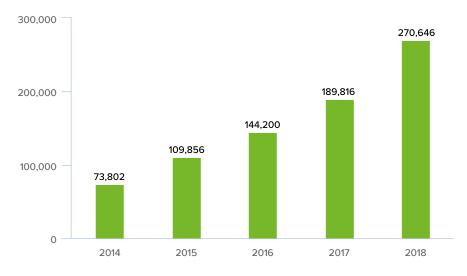
Strategic pillar 1: support for customers in making choices

Renewable energy generation plays a crucial role in building the new energy system. The number of customers generating their own renewable energy has been increasing steadily for several years. This trend continued in 2018, with the number of registered connections with an active feed-in installation in our service area increasing from approximately 190,000 to 271,000 (up 42.6%). This sharp increase is largely down to the affordability of solar panels, improved economic growth and a favourable climate as far as subsidies are concerned.

We enable customers to make choices that are not just good for them, but also for our energy system as a whole. Customers are gaining more and more influence over the energy system. Incentives can encourage them to make choices that not only work out well for them, but also for our energy system as a whole. We therefore need to make it appealing for customers to use energy when there is high demand for capacity, to feed energy back into the grid in times of scarcity and to minimise the burden on the energy network when it is under excessive pressure. Alliander connects supply and demand and helps to make the best social choices for advancing the new energy system. In this context, we work with other parties both within and outside the energy sector.

Rising number of renewable generation customers

Renewable generation customers



Number of feed-in installations at our customers

The wind turbines and solar panels in our service area supply sufficient energy to provide some two million households with renewable electricity. At the end of 2018, the amount of renewable generation in the areas where Alliander is active was as follows:

- solar energy: electricity for 315,000 households
- combined heat and power: electricity for 848,000 households
- wind energy: electricity for 673,000 households
- green gas: gas for 24,000 households

Alliander expects solar energy generating capacity in our service area to increase to six gigawatts over the next few years. This corresponds to more than 8,000 football pitches full of solar panels, or ten large coal-fired power stations. If all the existing plans go ahead, this will require major changes to the existing electricity grids, as these were not originally designed for feeding in renewable electricity on a large scale. In Friesland, bottlenecks already started to occur in our electricity grid in 2018, forcing us to impose transmission restrictions on customers. Given the time it takes to arrange matters such as permits and the shortage of technicians in the Netherlands, ensuring changes are made to the electricity in good time represents a huge challenge.

More government direction is required so that we know what has to be done to the electricity grids, and where and when this work needs to be carried out, at least five years in advance. Thanks to the planning at a provincial level, we already know at an early stage where wind farms will be located, which means we can prepare our network upgrades for wind energy in good time. At the moment, there is no such planning process for solar energy. In the context of solar energy, too, reaching proper agreement at an early stage with all parties involved is important and government direction is also advisable. Under the Regional Energy Strategies (RES), the regions will work with the network operators to determine which tasks need to be carried out, and where. In addition, network operators need to be given opportunities to make advance investments, as otherwise we will have to defer the changes to the electricity grid. Such delays have a negative impact on the required plans for changes to our networks. At the suggestion of the network operators, the upcoming Dutch Climate Agreement will include agreements on anticipatory network expansions, reforming the rules governing connections, and bringing in network operators at an early stage when permits for renewable energy generation are granted.

Matching supply and demand

We can avoid network upgrades by matching supply and demand more effectively, for example by getting customers to reduce their consumption at peak times, when there is a shortage of capacity in the electricity grid, so that the capacity that is made available can be used for other customers. Other possibilities include energy storage, 'capping' production peaks during the sunniest hours of the year, installing simpler (non-redundant) connections for local energy generation, and smart design. All of these measures help to keep network investments and lead times down. Some are already possible, but others are still the subject of consultation as they would require changes to legislation and regulations. In 2018, we undertook various activities to improve the matching of supply and demand:

Greater flexibility thanks to flexibility markets

A flexibility market is one such temporary solution that can be used to match energy supply and demand in a flexible manner, for example by shifting the consumption of electricity to a different time. Energy can also be stored temporarily. We are gaining experience in purchasing flexibility in an open flexibility market. In 2018, we organised a flexibility market in Nijmegen-Noord as an alternative to the traditional upgrade. If we had not done so, we would have had to lay a cable. That cable would only have been required until the new distribution substation comes online. The flexibility market requires less public money than the temporary upgrade would. A flexibility market might also provide a good solution for the Zuidplaspolder region in Zuid-Holland, where the network risks becoming congested. The tendering process for businesses that can manage energy consumption in this way was launched during the year under review.

Smart charging of electric transport

In 2018, the provinces of Overijssel and Gelderland decided to increase the number of public charging posts for electric cars by 4,500. At the same time, the provinces launched a pilot project into smart charging behaviour with Enexis and Alliander. The aim of this project is to work out how electric cars can be charged when the demand for electricity is not high, to use renewable energy where possible. This means that electric cars will be charged more quickly when plenty of renewable solar and wind energy is available, and that we can use smart charging to reduce the burden on the network when demand for electricity is high. In this way, we are getting ready to charge millions of electric cars using renewable energy. Moreover, we will make the best possible use of the electricity grid. We will study how this works in practice with car drivers over the next three years.

Cars in Amsterdam feed energy back into the network

In 2018, Alliander, The NewMotion and Enervalis worked together on a project subsidised by the European Commission, in which they installed and connected the first public charging points in the world to not only charge cars, but also feed electricity back into the energy grid for a fee. In future, such vehicle-to-grid technology will allow electric cars to use their storage capacity for everyday electricity consumption when demand is high, turning the charging posts into 'feed-in points'. The cars can subsequently be recharged when demand for electricity is low. The feed-in points receive information from drivers about when their cars will be used next. In this way, the charging points know when the batteries need to be fully charged. The points run on a system that works out when the battery will feed electricity into the network, using measurements in the network and predictions of the consumption and supply of electricity as a basis.

FrieslandCampina: 'We're no longer waiting on the sidelines'



Farms can play a pivotal role in the energy transition. That is what FrieslandCampina believes in any event. The dairy company's Solar programme helps farmers to rent, purchase and install subsidised solar panels.

"The way Dutch farms look is changing," explained Ynte de Vries, Programme Manager of Solar and Jumpstart at FrieslandCampina. "In 2018, the number of dairy farmers participating in our programme increased from 310 to more than 800. As a result, the number of solar panels to be installed doubled to over 800,000. We also noted that wind turbines are becoming more and more popular. If you connect

a wind turbine to an anaerobic digester for processing manure, you can have multiple energy sources on a single connection. You need to have a cable, arrange battery storage if necessary, and add a smart control button. If you do this, you'll soon have entire village running on the energy generated on just one farm. That's the direction we need to be heading in." Ynte agrees that this will have a huge impact on the electricity grid. In order for energy to be generated using solar panels, windmills and anaerobic digesters for processing manure, additional cables need to be laid and the underlying network needs to be upgraded. Alliander is making an all-out effort in this area. Despite this, it will also be necessary to look for smart solutions so that the networks do not have to be geared to generation peaks at maximum capacity. Ynte: "That can be achieved by using smaller converters, for instance, or by configuring and remotely controlling those converters in dialogue with the customer. What I like about our relationship with Alliander is that when it comes to solutions, we connect. The solutions come about as a matter of course. FrieslandCampina doesn't have to push Alliander to coax a solution out of them."

Many dairy farmers have started installing solar panels and applying for subsidies themselves, but a different method of organisation is required if the energy transition is really to gather momentum. "Simply waiting for an application for a connection to be submitted and then slowly going through the process will not be enough for that," Ynte explained. It does not help legal requirements and rules still often form a barrier. For example, the requirement that subsidised solar panels are installed on the roof within 18 months has led to planning problems. Ynte believes that the government will allow experiments. "We need to enter that sphere together. Sharing information is crucial. We share the locations of our farmers so that Alliander can identify opportunities for making fast profits. We really appreciate the fact that our two large organisations work together so well. Alliander is our springboard when it comes to making farmers the energy suppliers of the future."

Prepaid energy

At the beginning of 2018, dozens of households in five major cities started to trial a new prepaid energy service. This service is designed to make households more aware of their energy consumption and offer them additional help so they can avoid being disconnected. Each household buys an energy credit, which they can top up themselves. Alliander, Stedin, Greenchoice, Nuon and Energiebank are collaborating closely in this trial.

We prefer not to disconnect customers in the winter. In this context, we go further than the law requires. The law states that we must stop disconnecting customers if it freezes in De Bilt, the site of the Royal Netherlands Meteorological Institute, for 48 hours. Every week, we take a look ahead to determine whether the average temperature will be below zero in any 24-hour period. In cases of doubt, we decide in the customer's favour.

Dilemma: flexibly managing growth in capacity

The strong demand for capacity is attributable to the economic upswing, the energy transition and the usual increase in the number of connections. Although we follow the market and try to make accurate predictions about growth, we have found it difficult to keep up with the rapid pace of growth for the past few years. In practical terms, the demand for greater transmission capacity means that business customers are not getting as large a connection as they would like and that we are therefore unable to satisfy all of the demand from these customers. That is why we look for temporary solutions, such as the flexibility market. Applying flexibility in managing energy flows (congestion management) is already part of the statutory core duty of regional network operators. Although this is currently still an expensive alternative to upgrading, it expected to become less expensive as the flexibility market grows. At the moment, legislation and regulations do not cover any other future applications of flexibility. A solution will need to be found for this if we are to make the most of the opportunities in the area of flexibility. The dilemma we face here is whether to create a flexibility market or to upgrade the network.

Strategic pillar 2: new open networks

All kinds of new infrastructures will be created at a local level, either at the initiative of residents, or because municipalities want to end the use of natural gas. We are creating such new open networks. It is crucial to ensure that these new infrastructures remain accessible ('open') to customers and providers of heating sources under equal conditions

Transition to new, sustainable heating supply

Alliander has the social task of facilitating the transition to a new, sustainable heating supply within its service area. This major, complex task, which is one of our focus areas, will affect all of the districts within the 145 municipalities in our service area (approximately 1,000 districts). By the end of 2020, all municipalities must have produced a plan setting out how they intend to wean each district off natural gas. When the solution is designed, Alliander will draw on its knowledge and experience relating to the existing energy networks with the aim of avoiding suboptimal choices and unnecessary costs to society.

Natural gas-free test beds

In October, the municipalities of Amsterdam, Katwijk, Nijmegen, Noordoostpolder, Purmerend, Vlieland and Wageningen, which are situated in our service area, were selected to participate in the Aardgasvrije Wijken ('Natural Gas-Free Districts') programme run by the Dutch Ministry of the Interior and Kingdom Relations. In this programme, municipalities gain knowledge of, and experience in, how to make existing districts more sustainable in a way that is both practical and affordable. The test beds allow us to learn how we the make the transition from natural gas to sustainable alternatives.

Weaning districts off natural gas in Nijmegen and Zutphen

The municipalities of Nijmegen and Zutphen are aware of the need to find new heating solutions quickly. To this end, a letter of intent, 'Zutphen van de toekomst' ('The Zutphen of the future'), was signed in Zutphen in 2018. In Nijmegen, thousands of new homes have been constructed without natural gas connections and instead have been connected to a heating network. The ultimate aim is that all districts within these municipalities will switch to new energy sources. To help accomplish this aim, we provide information about the age of the gas network and explain the technical and financial consequences of advisable sustainable alternatives. We also share knowledge relating to approaches and processes.

Heating network in Zaanstad

In 2018, Firan started to develop an open heating network in Zaanstad-Oost. The network will use residual heating obtained from various sources. The first of these sources is a local small-scale biomass plant. Residents, businesses and institutions will benefit from this local, sustainable and affordable energy supply. The future network has an open structure. This ensures that all suppliers of residual heating and customers will be able to make use of the network and that the same rules will apply to all. In the interim, a heating plan for Zaanstad-Oost has also come into effect. Under this plan, new-build areas will also be connected to the heating network. A start was made on the construction of the heating network at the beginning of 2019.

Duty to provide gas connections no longer applies to new-build areas

The construction of natural gas-free buildings is becoming the norm. The government has decided it is no longer desirable for new-build homes to be connected to the gas network as standard practice, the reason being that newly built properties homes are much better insulated, and connecting them to the gas network conflicts with the climate objectives. With effect from 1 July 2018, network operators have no longer been required to connect new homes and buildings to the gas network.

Dilemma: Working with municipalities

Every province and municipality must have a Regional Energy Strategy by 2020. Municipalities are in charge of preparing this strategy and the related heating transition plans. When doing so, they may make suboptimal choices. For example, they may opt for a new infrastructure, such as a heating network, in a district where there is already a gas network. As a network operator, we are currently still required to install and maintain the existing gas network. This leads to additional costs, which are paid for by gas consumers in every municipality. Moreover, it slows down the energy transition, as it means the network operators are overloaded with work. The dilemma that this poses for Alliander is whether to comply with such demands from municipalities or not. Our challenge is to persuade municipalities at an early stage of the vital role we play in using our knowledge and experience to support the planning process, as this will increase the positive impact of our activities.

Research into hydrogen

Hydrogen is a possible future alternative to natural gas. Whether hydrogen really has a future in the Netherlands is uncertain, as this will depend on availability. In 2018, network operators investigated whether the existing gas network is suitable (or can be made suitable) for transporting hydrogen and green gas. This seems to be the case, provided appropriate measures are taken. These include technical modifications and safety measures to guarantee a safe infrastructure and the safe use of hydrogen.

The network operators advocate focusing on the development and use of hydrogen in the industrial sector and a number of pilot projects in the built environment. In this context, in 2018, network companies Alliander, Enexis and Stedin took the initiative to construct a test set-up of a hydrogen network at Delft University of Technology's Green Village. Moreover, in 2018, Alliander joined the Dutch Hydrogen Coalition, an initiative in which network operators, the industrial sector, energy companies, nature conservation organisations, environmental organisations and scientists participate.

Feed-in of green gas continues to grow

Agricultural businesses, market gardeners and waste processing companies are able to feed green gas into our network. Green gas is the sustainable version of natural gas and is made by refining biogas until it is has the same quality as natural gas. We have seen an increase in green gas in our service area. Groen Gas Gelderland produces 400-500 cubic metres of green gas per hour that it feeds into the network. In 2018, a new interconnector was constructed so that in future this can be increased to up to 1,300 cubic metres per hour.

In Friesland, FrieslandCampina assists dairy farmers in installing and using single-feedstock anaerobic digesters for processing cattle manure. The digesters help to lower carbon emissions in two ways: by reducing methane and by generating green gas. The digesters convert manure into biogas, which can then be refined to produce green gas that is then fed into our network.

Strategic pillar 3: digitisation

Advancing ICT is rapidly unlocking new opportunities for managing our networks. By installing smart meters, sensors, remote control switches and a telecoms network, we can quickly detect and even prevent interruptions, make more targeted investments in the networks and offer customers data and services to make energy choices easier for them (including self-service).

We set ambitious digitisation targets for the year under review. One target was to complete 95% of our digitisation programmes. We ultimately completed 52% (2017: 58%). We did not manage to accomplish everything we had planned, particularly as regards the roll-out of the Smart Cable Guard and intelligent medium-voltage stations. This is due entirely to an inability to carry out all the work involved. In our operations, dealing with failures and disasters and connecting customers are given greater priority than the digitisation programme.

Data-driven network management

The use of IT makes it possible to manage fluctuations in energy supply and demand, and respond to evolving market relationships, in a reliable, efficient and safe manner. Smart networks and data technology help us to make targeted and effective investments in networks as well as to prevent outages and repair faults faster. Customers expect a network that enables them to feed in energy without any problem. They also expect us to make the network more reliable and transparent by means of innovative technology. We have carried out work at various locations to make our energy networks smarter. These initiatives include the integration of smart technology into medium-voltage stations, the roll-out of a switching system for public lighting, the large-scale roll-out of smart meters and the implementation of ICT applications and sensors for managing the flexible flow of energy.

Smart Cable Guards

Smart Cable Guard (SCG) is a system that detects and localises weaknesses in the underground network, ideally before these lead to interruptions. It enables any faults to be localised (with an accuracy of several metres) in a section of several kilometres in a single attempt. This reduces the amount of time and money needed for repairs to the electricity supply. Alliander purchased new SCGs in the year under review. In mid-December 2018, we had 530 SCGs in our network, and we expect to reach our target of 800 SCGs by mid-2019. In addition, the system underwent a technical update. Thanks to these changes, if a defective cable is detected, the system can now clearly indicate the precise location of the fault immediately. This means that outages can be resolved faster and other parts of the network can be activated immediately, enabling power to be restored to customers quickly.

Intelligent medium-voltage stations

During the year under review, we made efforts to improve the reliability of medium-voltage stations and gain a better understanding of the loads on them. For example, the time and duration of heavy loads are now made clear. Intelligent medium-voltage stations can help to resolve outages more quickly and keep customers better informed. We have recently made significant improvements, which included the addition of data obtained from smart meters.

Offering smart meters

One crucial link in the creation of a more intelligent infrastructure is the smart meter. Customers are increasingly making their own energy decisions. Smart meters help customers to save energy, to use energy when costs are low or to feed energy back into the grid when the price of electricity is high. We can also use the information provided by smart meters to deal with outages more quickly. We intend to offer smart meters to all our customers by 2020. We are doing this in close cooperation with our partners, such as contractors. In 2018, smart meters were offered to 643,519 addresses. At the end of 2018, 110% of the work scheduled for 2018 had been carried out. The progress made each month is shown on Alliander.com.

Privacy and data protection

The new General Data Protection Regulation (GDPR) came into effect in May 2018. This new privacy legislation applies to all organisations that process personal data. Organisations need to be able to demonstrate that they handle such data with due care. Alliander is no exception. We made in-depth preparations to comply with the new legal requirements, which we implemented during the year under review. To illustrate, we have set up a record of processing activities containing information on all our personal data processing operations. We also carry out data protection impact assessments (DPIA); whenever we process large amounts of personal data or sensitive personal data, we first assess the privacy risks that could have consequences for the data subjects. Customers can go to liander.nl to exercise their associated rights, such as the right of access, right to erasure and right to restriction of processing.

Cybersecurity

We need to anticipate cyberattacks and respond promptly to any changes. Our employees play a key role in keeping our IT systems safe. We also analyse cyber-risks. This involves determining what any developments mean for Alliander, how we may be affected by a cyberattack, and which action we need to take. We have modern defences, which means that, besides setting up firewalls to avoid being hacked, we also detect hacking activity and take action. In 2018, the Dutch House of Representatives and Senate adopted the new Dutch Network and Information Systems (Security) Act. This act breathes new life into the existing duty of care and obligation to disclose cybersecurity incidents at providers of essential services, such as drinking water companies, network operators, utility companies and banks. Radiocommunications Agency Netherlands will carry out general, theme-based and (where necessary) incident-driven checks every year to determine whether companies comply with their duty of care and disclosure obligation. Alliander's existing approach, based on governance, protection and resilience, complies with that duty and obligation.

Strategic pillar 4: excellent network management

Our energy networks are among the most reliable in the world. We will ensure they remain so in the future. Thanks to efficient management, we are keeping the existing networks affordable. We also consider it important that customers experience more convenience and trust when we carry out work for them.

Safe infrastructure

Customers expect us to ensure a safe infrastructure and to guarantee their safety when we carry out our work. The safety of networks for everyone involved is our highest priority. A safety culture is essential for an infrastructure that is safe for our employees and other stakeholders. The possibility that incidents could occur in the gas or electricity grid means a targeted approach is crucial. We are also working in other ways, and in different areas, to prevent unsafe situations arising for our employees and the environment:

- We are working on replacing and closing medium-voltage stations that have limited or inadequate protection. As
 this will take some time, additional measures aimed promoting safe working practices in such spaces will apply
 until this work has been completed. These measures will remain in force until these installations have been
 replaced by closed installations.
- In 2014, a gas explosion in Diemen resulted in the loss of two lives. The Dutch Safety Board recommended the
 digital registration of gas connections in buildings with multiple connections, such as blocks of flats. During the
 year under review, Alliander mapped out the connecting pipes of more than 8,000 buildings with multiple gas
 connections.

In 2018, there was one lawsuit related to the health and safety of customers or third parties.

Reliability of supply of energy networks

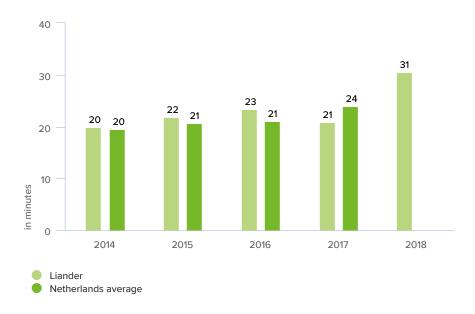
In 2018, customers were without electricity for 30.6 minutes (2017: 20.9 minutes) on average. In the year under review, there were four major power failures, some of which were caused by safety systems that were not working properly. In addition, compared with 2017, there were 30% more outages in the medium-voltage network, with a huge peak in outages in the hot summer. This was because the persistent drought dried out the soil, reducing its thermal resistivity, which put additional strain on cables. That said, a positive effect on the outage duration was seen in places where we have implemented our digitisation strategy to a large extent, such as in the north of Noord-Holland. In those areas, we can localise disruptions more quickly and manage technicians more effectively. In Amsterdam, we are working on simplifying the local electricity grid. As this grid has become extremely complex over the years, simplifying it may help us to resolve outages more quickly, among other things.

Gas outages are relatively uncommon (in 2018, 0.5% of customers were affected by a gas outage). The main cause of fluctuations in the gas outage duration are random large-scale outages that leave customers without a gas supply for a long time. Many of these outages are isolated, non-recurring incidents.

Preventing excavation damage

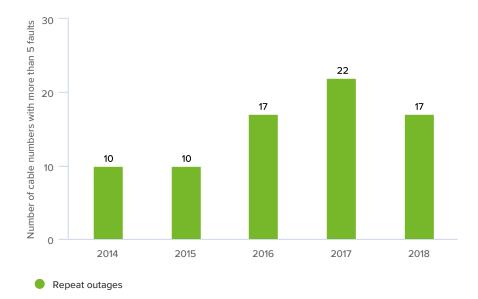
In 2018, Alliander became part of an alliance that aims to prevent damage to cables and pipes caused by excavation activities. In this context, it is important to ensure contractors and excavation workers are aware of the risks associated with their work and of the need to register the work beforehand with the Cable and Pipe Information Centre (KLIC) run by the Netherlands Land Registry and Mapping Agency (Kadaster).

Annual electricity outage duration¹



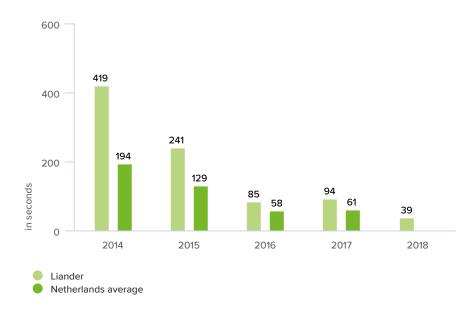
¹ The average figure for the Netherlands for 2018 was not known at the time of publication.

Repeat outages



The number of unique cable numbers with more than five outages per year was on target (maximum of 17), thanks in part to choices made when prioritising work. This decline comes after several years in which there was a rising trend in repeat outages. The increases seen in 2016 and 2017 were chiefly attributable to the fact that more excavation work was carried out in those years, which had an impact on the number of outages due to damage to networks during excavation work. Damage caused by excavation work in the past is particularly likely to result in repeat outages. A sharper focus on repeat outages, combined with more effective preventive actions, resulted in the improvement seen in 2018 compared with 2017.

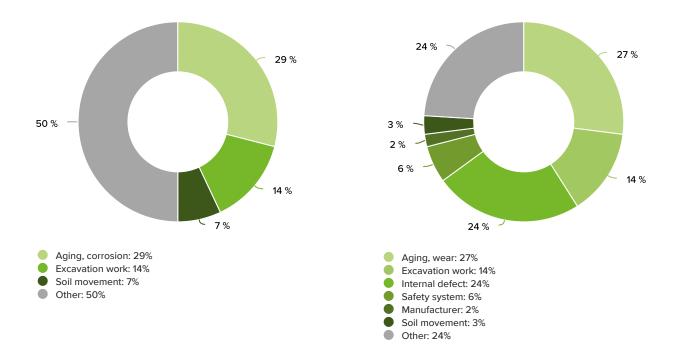
Annual gas outage duration¹



¹ The average figure for the Netherlands for 2018 was not yet known at the time of publication.

Causes of gas outage duration (2018)

Causes of electricity outage duration (2018)



Major outages in 2018

In 2018, there were four major power outages, two of which occurred in Arnhem and Amsterdam. In February, some 52,000 households in Arnhem went without electricity for several hours. On 9 March, a major, complex outage occurred in the Amsterdam city centre. An electricity cable was cut by workers, resulting in a short circuit and fire in the Frederiksplein distribution substation. The consequences of the outage were very evident in the centre of Amsterdam. A total of 28,000 households were without power for a long time, the Rijksmuseum was evacuated and many of the trams came to a standstill. Liander arranged for a detailed investigation to be carried out. The cause of the outage turned out to be a safety system that was not working properly. If a live cable is accidentally cut, this causes a short circuit. In such situations, the cable is normally switched off by a back-up safety system within a few seconds, but this did not happen in Amsterdam due to a defective fuse.

We introduced measures in response to this outage. A system that constantly monitors the safety systems had already been installed in nearly all of the 250 stations in our service area, enabling us to prevent similar incidents. This system still had to be installed in a small number of stations, and we expect that this will happen by the end of March 2019. Until that time, technical specialists from Liander will continue to check the safety systems on a regular basis.

Infrastructure maintenance

In 2018, we spent € 954 million on the maintenance, replacement and construction of our energy infrastructure (2017: € 816 million). When it comes to infrastructure maintenance, every region has its own priorities, approach or characteristics. An overview of our investments in the energy networks in each region is available on Alliander.com.

New switching station in Middenmeer

In 2018, we worked on renovating and expanding the electricity network in various locations. In Middenmeer, TenneT and Liander worked together on the construction of a brand-new switching station and a number of new cable connections. This new station is needed to connect the Wieringermeer wind farm, which will be one of the largest wind farms in the Netherlands, with a hundred turbines supplying green power to some 280,000 households. The work is expected to be completed by the end of 2019.

Feasibility of installing connections

The growing economy has led to a rapid increase in demand for capacity. Businesses in particular require more capacity so they can increase their production capacity. In addition, the energy transition is picking up pace, and renewable energy is being generated in more and more places. To cope with this, many new connections, upgrades to existing connections and thicker cables are required. The number of applications for new connections and upgrades go way beyond the plans for infrastructure development. At the same time, there is a severe shortage of people with technical skills. As a consequence, it is not always possible to install the required connections within the statutory 18-week time frame. Moreover, in some parts of the electricity grid a backlog of work has arisen with regard to the expansion of the underlying network (thicker cables). This results in a sharp increase in the number of transmission restrictions. A transmission restriction means that the customer still has a connection, but this does not have the capacity the customer requires.

The network operators and partners in the chain are working together on solutions aimed at helping to reduce the time taken to install connections and ensure adequate transmission capacity. Moreover, the network operators want to provide clear information on what can, and what cannot, be achieved within the 18-week time frame. They held indepth discussions on this matter with the Netherlands Authority for Consumers & Markets (ACM) during the year under review.

Improving our operational processes

During the year under review, we made fundamental changes to how we organise our operational processes, partly in response to the increased workload and the shortage of technicians. These changes have enabled us to continue to improve our performance in terms of promptness, productivity and cost-awareness.

Prior to 2018, the department responsible for the renovation and renewal of our networks worked in teams that consisted solely of engineers, project managers *or* construction supervisors. The department now works in multidisciplinary teams that include project managers, engineers *and* construction supervisors. Together, they are responsible for a number of projects. As a result, there is a sharper focus on ensuring projects are carried out in accordance with the agreements reached (with the customer or otherwise), and on making the best possible use of available engineering capacity.

Moreover, during the year under review, we experimented with outsourcing entire projects to contractors. They handle the preparations as well as implementation, which includes linking up to network, enabling us to handle more work together. Based on this experience, a major procurement process was launched at the end of 2018.

When planning our work, we determined the amount of time our activities would take on the basis of fixed, average standard lead times. We analysed which factors affect these standard lead times, such as the presence of any soil contamination. By using more flexible standard lead times in projects, we can now plan and manage our work more accurately and effectively. In this context, we applied more appropriate standard lead times for the first time in 2018.

Our results in the regions

Gelderland

Major housing developments are under way in the Arnhem-Nijmegen urban area. During the year under review, we expanded the infrastructure in various places so that energy can be supplied to new homes. With regard to Nijmegen-Noord, preparations for a new distribution substation near Ressen are well under way. Moreover, additional facilities are required in east Gelderland so that solar and wind energy can be generated locally. Within that region, we worked on connecting the Den Tol wind farm to the existing distribution substation in Ulft. Further expansion of this station is ongoing.

Friesland

Friesland advocates renewable energy and energy saving measures. In 2018, we put a great deal of effort into preparing for the expansion of the Wolvega and Oosterwolde distribution substations and carrying out the associated work. We continued to install connections for energy generated by solar panels on the roofs of farm buildings and connected new producers of green gas to the gas network. We worked closely with stakeholders, such as housing associations, to make districts and homes natural gas-free. With a view to ensuring the adoption of heating develops along the right lines, we helped to prepare a heating vision for Friesland's towns and cities.

Noord-Holland

The Haarlemmermeer area is home to a large concentration of data centres, notably around the A4 motorway. The local network does not have the capacity to cope with the demand for electricity in this area, which remains high. To cater to the explosion in demand for energy in Haarlemmermeer, we are consulting with national transmission network operator TenneT, the municipality and residents to find a suitable location for adding new capacity to the area. We worked hard on preparations for a new distribution substation in Wieringermeer. The substation is necessary given all the plans that exist for generating wind energy in this area.

Amsterdam

Demand for energy is increasing in Amsterdam due to population growth and the activities of businesses such as data centres. The city is also making a conscious effort to move forward with the energy transition. The number of solar panels increased, more homes were weaned off natural gas, and initiatives were in place for electric car mobility. Demand for energy around the Zuidas financial district is rising faster than expected, making an upgrade necessary. We therefore worked on two new distribution substations and the revamping of the Zorgvlied station. Preparations are well under way for a new distribution substation on a new island in IJburg.

Zuid-Holland

In view of the growing demand for electricity in the Zuidplaspolder, in 2018, we joined forces with network operators Stedin and TenneT to examine the feasibility of a new distribution substation. In anticipation of this, we intend to organise a flexibility market to match electricity supply to demand. We installed a connection for excavating a tunnel in the vicinity of the Rijnlandroute, which will link the A4 and A44 motorways, and relocated the load of the Leiden distribution substation to another station. We also repositioned cables and pipes.

Flevoland

Flevoland is an extremely suitable area for wind generation. The issue here is to ensure that generated energy can be fed into the electricity grid in all circumstances. In Almere, we reinforced the energy network to facilitate growth in the number of homes, businesses and data centres. We also made a start on expanding the De Vaart distribution substation. We applied for dispensation for the new direct current (DC) network at Lelystad Airport Business Park, which we were given approval for at the start of 2019.

Investments by region

	Investments (€ million)	Number of smart meters installed
Noord-Holland	217	250,678
Amsterdam	149	187,009
Zuid-Holland	80	90,784
Gelderland	179	337,278
Friesland	65	122,928
Flevoland	26	64,410
Other (mainly Kenter and Alliander AG)	15	0
Total	731	1,053,087

Customer convenience

The key determining factor of customer satisfaction is the convenience they experience (Net Effort Score). Immediately after we complete a job, we ask customers for feedback on our services. To express the amount of convenience experienced by customers, we calculate a percentage score. The calculation consists of the balance of the percentage of respondents who experience little or very little inconvenience minus the percentage that experience great or very great inconvenience. This provides insight into the results we achieve and the areas where improvements still need to be made. The Net Effort Score is updated on a monthly basis on our website, Alliander.com.

Customer convenience came under pressure owing to difficulties completing all the work we have to do, and to the long waiting times customers faced as a consequence of those difficulties. Despite this, the figures were fairly stable.

Customer convenience rated by business customers

In 2018, customer convenience based on the Net Effort Score (NES), as rated by business customers was 38%, compared with 39% in 2017. The main reason for the slightly lower figure for business customers is failure to keep to agreements in the proposal and realisation phases, and inadequate communication regarding related changes. Large business customers in particular feel that the contracting process is bureaucratic. Against this, improvements in call handling by coaching of project managers and in communicating lead times had a positive effect. We are working to make improvements in the areas of personal contact with customers and the digitisation of processes.

Customer convenience rated by consumers

Our customer convenience score for the consumer market stood at 50% in 2018. This represents an increase compared with 2017 (47%). Despite the difficulties in completing our work package, there was an increase in customer convenience as rated by consumers. This increase is attributable in part to improvements in the accessibility of our customer contact centre as well as new communication channels. In addition, we changed the method used to obtain feedback on our services, leading to an increase in the number of customers reporting a positive customer experience. Interaction with customers in the smart meter roll-out remains a key consideration.

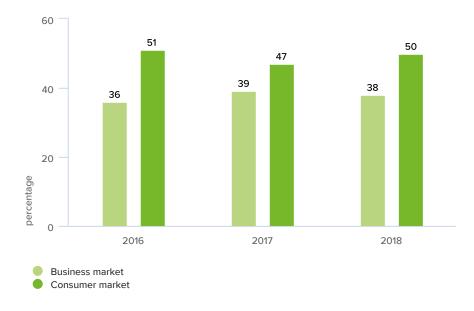
Sharp rise in number of customer queries

The number of customer queries was up 35% compared with 2017. Most customer queries made through liander.nl concerned requests for information about outages or fault reports. Other common reasons why people visited the website included looking up information about their energy connection capacity or tariff. The call centre mostly received queries about the application process, the status of submitted applications, and how to avoid being disconnected. The third reason why customers contact us is to ask for general information about Liander as an organisation.

Other customer convenience scores

The energy suppliers, which are our most important partners, awarded us a customer convenience score of 73% for 2018. The customer convenience score given for the installation of smart meters was 63%.

Customer convenience (perceived convenience, expressed as a percentage)



Online customer service

During the year under review, there were 2.2 million visits to our website liander.nl. Customers consult the website primarily for information on outages or the energy transition. Satisfaction with our services has increased in response to the provision of online self-service tools that customers can use whenever they want. In 2018, we carried out a survey among visitors to the website, which revealed that business customers often looked for information in the wrong place. In response to this, improvements were made to the website. The changes made to the home page and navigation ensure visitors are now guided to the right part of the website straight away. We have also made information intended for our partners, such as energy suppliers and municipalities, easier to find. They can contact us through new digital communication channels as well. Other changes:

- Customers can use the number of their meter to log into liander.nl and view information about their connection, report changes, and check whether their meter is suitable for a dual-rate tariff and feeding in electricity generated by solar panels.
- By entering their postcode in an online tool on the Liander website, customers can see immediately when their smart meter is due to be installed.
- Customers want to be able to find relevant information on outages quickly on liander.nl quickly. Advertisements
 on google.nl and our new outages page help them find that information. The outages page now contains more
 accurate information on how long repairs are expected to take, and the information has been made easier for
 smartphone users to find. Moreover, we improved the platform so that the website can cope with larger numbers
 of visitors.

Impact case I: the impact of optimum integration of local energy generation into the network

In 2018, we considered an anonymised case in which we investigated what the financial and natural impact would be if we were to decide not to invest in upgrading, but were instead to opt for smart management and reduced power peaks. The result was positive.

Energy networks have a long useful life. In the past century, an intricate electricity grid was developed in the Netherlands. Over time, an extensive, highly reliable network came into being. Network operators are required by law to connect customers to the network promptly and make sufficient capacity available. More and more renewable energy is being generated locally. The grid was not designed for feeding in locally generated energy on a large scale. Feeding energy into the existing network is not always straightforward at every location. Under the current design rules, additional cables and mains supplies will need to be installed to facilitate this.

Project

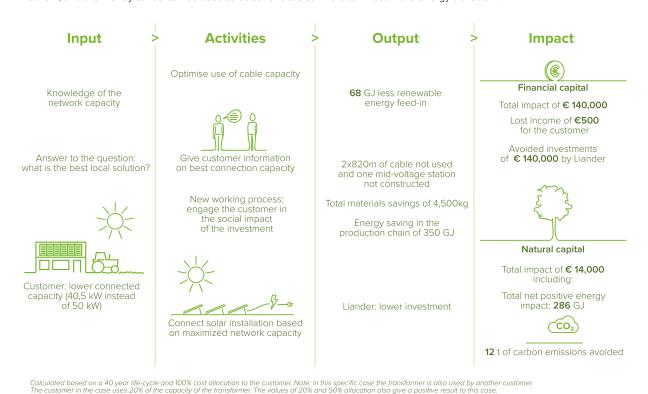
When energy is fed back into the electricity grid, a connection may be required that has a higher capacity than what the local capacity and voltage level were originally equipped to cope with. The network operator's statutory transmission obligation may mean a major investment is required in order to handle a small number of power peaks each year. The question this raises is whether the cost of an expensive local upgrade of the network outweighs the social added value provided by a small additional renewable energy supply. The network operator therefore faces a dilemma: either invest in extra capacity and cables, or investigate the extent to which the existing infrastructure is sufficient when combined with smart management and reduced power peaks. From a technical perspective, it is necessary to determine the optimum level of available network capacity and network voltage in relation to the requested connection. From a social perspective, what matters is how the network operator can use investments to facilitate the integration of locally generated renewable energy in the best possible way.

Impact calculation

In this anonymised customer case, the calculation of the impact on financial and natural capital was based on not upgrading two 820 m 10 kV electricity cables and not constructing a medium-voltage station. Instead, the capacity of the customer's connection was reduced from 50 kWp to 40.5 kWp. In this customer case, the impact on financial capital is positive. By avoiding investments in cables, a transformer and hours, the network operator saves \leqslant 140,000. The impact on the natural capital is positive. In this example, the avoided energy input due to materials amounts to 350 gigajoules. By not upgrading the network, the amount of energy that the customer supplies to the network may be reduced by up to 68 gigajoules. The avoided eco-costs for the materials are positive, and amount to \leqslant 14,000. Overall, there is a net positive effect of 12 tonnes of carbon emissions thanks to avoiding the carbon footprint of cables and materials.

This customer case has provided us with experience in dealing in a different way with a request for a network infrastructure upgrade for the local electricity supply in relation to the network operators' obligation to provide connection and/or transmission services, and the associated consultations with competent authorities. Alliander and the competent authorities are in dialogue on the conditions and legal options for speeding up connections for locally generated renewable energy.

Not upgrading the network has a positive effect on financial capital and natural capital in this specific case. The avoided impact is greater than it would be if peak capacity were facilitated by upgrading the energy network, and the money saved can be used to better effect elsewhere to invest in the energy transition.

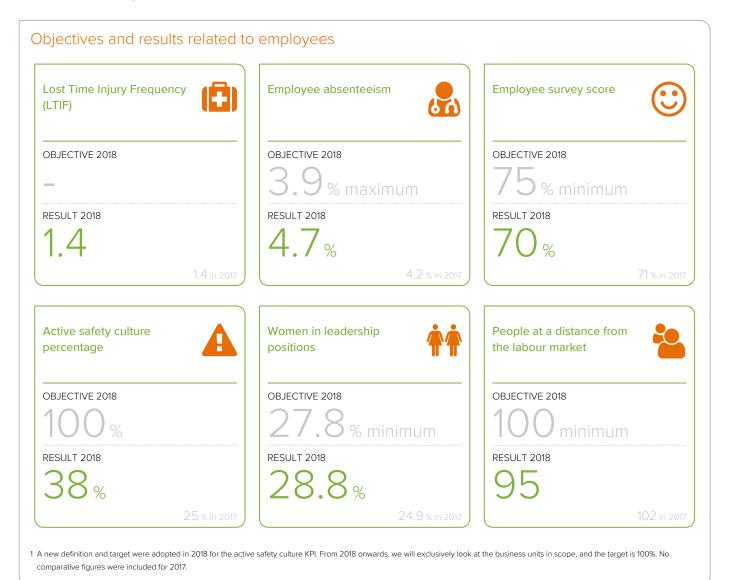


Employees

Alliander employs about 7,450 people (6,800 FTEs), who work together to ensure a reliable, affordable and accessible energy supply. We offer our employees a safe and healthy working environment that they can be proud of.

This chapter is about what we do for our employees. Our colleagues have indicated that they are particularly interested in information on the following material themes (the figure behind the theme corresponds to the position in the materiality matrix):

- Safe and healthy working practices ①
- Training and development ⑦
- Workplace wellbeing ®



Continuing to prepare for the energy transition

The energy transition is in full swing. In this transition, it is our employees who have to make sure that our homes remain warm and the lights stay on, both today and in our sustainable tomorrow. It is important for Alliander that our organisation and our employees are prepared for this. That is why we constantly assess whether our employees have the knowledge and competences that are needed today and in the years to come.

We are working to create a culture in which there is room to talk openly and freely about that new reality, a culture in which it is normal to continue to invest in yourself, irrespective of your age, work experience or training. We do this every day, for instance by offering training, internships and other learning experiences and by getting employees and managers to talk to each other about how to remain employable in future. In 2018, we launched a pilot project in which managers were given training on talking to employees about long-term employability. This involves discussing the skills that will be needed to carry out work in future. We are seeing that people think about what is expected of them and what they need to achieve their ambitions. In this way, we are working together to ensure career continuity and the continuation of Alliander as a going concern.

More capacity to carry out work and sharper focus

The Netherlands continued to have a major shortage of experienced technicians in 2018. Economic growth and the acceleration of the energy transition are creating more and more work for us, and the number of vacancies is increasing rapidly. Predictions for the coming years also point to significant demand in terms of capacity. Compared to previous years, in which we specifically looked for technicians, for example, our target group was broader in 2018. We focused on technicians, engineers, project managers and team leaders, and construction supervisors. Besides young people with a senior secondary vocational education and training qualification and highly skilled people with a technical profile, we also approached candidates who were prepared to retrain. Going by the number of vacancies that were filled, we can conclude that our recruitment activities resulted in new employees being taken on, but not yet in sufficient numbers to enable us to complete the work package. We therefore remain alert to the need to have skilled people trained in good time to carry out the work on our networks.

In addition to looking for additional staff, we also looked for ways to carry out work with a sharper focus through the use of more efficient working methods, better planning and more accurate forecasting of work, both in our operations and at the central support departments. By improving collaboration between departments, we learn how to make more effective use of each other's professional expertise and qualities.

Workplace wellbeing

We are aware that the energy transition and technological advances, such as robotisation and digitisation, are picking up momentum, and as a result jobs are being lost, created and changing. This places heavy demands on our people. In 2018, we saw an increase in absenteeism due to illness, and in particular long-term absenteeism. To us, this is a sign that we need to maintain an effective, honest dialogue with all our employees. Besides this dialogue on long-term employability, we also offer other tools, such as the long-term employability budget, to enable our employees to continue to work in a healthy, sustainable and effectual way.

Safety

In September, two people employed by a subcontractor were injured while carrying out work for Alliander in Amsterdam. During the work, the wrong electricity cable was cut, causing an arc flash. One person suffered serious burns, while the other sustained minor injuries.

Our ambition at Alliander is 'everyone safely home'. This applies to Alliander employees as well as employees of external parties with which we work. That is why safety is a permanent priority throughout our organisation, from the shop floor to the Management Board. We do our utmost to manage risks wherever possible when it comes to technology, our work processes and our behaviour. Our aim at Alliander is to make safety integral to our thinking and acting in our operations.

Safe working environment

Alliander offers employees the safest possible working environment. During the year under review, we worked on a procurement process for new safety clothing and personal protective equipment so that our employees can continue to carry out their work in comfort and safety. Alliander also ensures that the people who work for us are fully aware of the role that safety plays in their work. Among other things, we introduced life-saving rules (LSRs) several years ago to prevent safety incidents. During the year under review, we reviewed these rules so that we would have unambiguous rules that apply throughout Alliander.

Exposure to hazardous substances

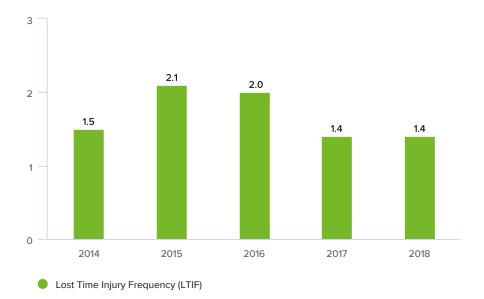
In our activities, the risk exists that employees may come into contact with hazardous substances. In 2018, research by Kiwa found that long-standing underground gas leaks may result in the surrounding soil becoming contaminated with benzene. When leaks of this kind are repaired, benzene could be released, and this poses a potential health risk. On behalf of all network operators, the Association of Energy Network Operators in the Netherlands carried out additional studies in approximately 150 places to gain an understanding of the extent of the risks and determine how the way we work on gas leaks will be affected.

Highly elevated concentrations of benzene were detected above the gas mains at 19 locations. A study was also carried out to determine whether employees working in places where a higher concentration of benzene has been detected are also exposed to benzene. This study found that the level of exposure is below the legal limit for benzene. As a result, network operators can repair gas leaks safely and responsibly, provided the right protective equipment and procedures are used. A special team informed employees about this at various locations. We are also investigating ways in which technicians can measure whether benzene is present in soil themselves. We will follow modified work instructions until a method for taking such measurements is available. The Association of Energy Network Operators in the Netherlands is working on a national approach to working on gas leaks involving benzene contamination.

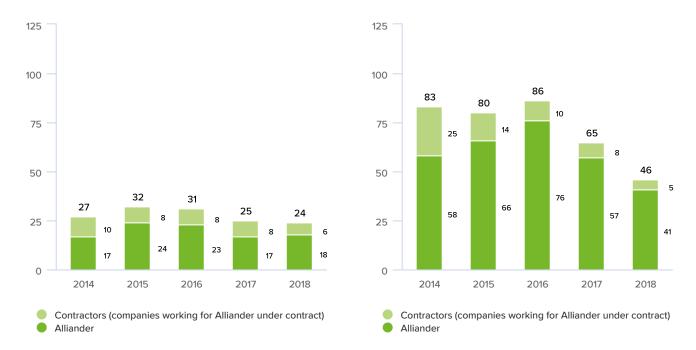
In August, it became clear that paint containing hexavalent chromium (chromium-6) had been used on a number of TenneT's high-voltage pylons. These include installations where Qirion employees work. The risk of exposure seems small, but when it comes to the health of our employees it is important to know which other assets have been treated with paint containing hexavalent chromium. In collaboration with TenneT, we studied the past use of paint containing hexavalent chromium on installations by retrieving information, carrying out exposure studies and conducting material tests using random samples. The pylon study revealed varied results. In some connections, all of the pylons that were studied had been treated with paint containing hexavalent chromium. In other connections, only some of the pylons had been coated with such paint. There were also some connections in which all the pylons were free from hexavalent chromium. The initial results of the study are helping us to define procedures to enable colleagues and contractors to safely work on installations where paint containing hexavalent chromium has been used.

Lost Time Injury Frequency (LTIF)

Lost Time Injury Frequency (LTIF) expresses the number of accidents resulting in absenteeism per 1 million worked hours. The LTIF of 1.4 for 2018 was unchanged compared with 2017. As the LTIF is an indicator that shows past performance in the area of safety, it not possible to influence the level of this indicator directly. The level of this performance indicator is indirectly affected by all the safety-related measures that Alliander has taken in recent years.



Number of recorded accidents (including accidents resulting in absenteeism) with absenteeism without absenteeism



Safety ladder

We periodically measure safety levels at seven of Alliander's operational business units. The tool we use for this purpose is the safety ladder. It helps us to improve awareness and behaviour relating to safety within our company. In 2018, 38% of the business units were on target, achieving a score 3 or more on the safety ladder. Such a score indicates that safety is considered to be important within an organisation. This score cannot be compared with the score for 2017 owing to a change in the definition used.

Fit and healthy employees

It is important to Alliander that our employees can remain sufficiently fit, motivated and skilled for their work, both now and in the future. In addition to a dialogue between managers and employees, Alliander promotes the long-term employability of employees through a special budget and a vitality programme. These investments serve to keep our people in good shape and ready for the work of the future.

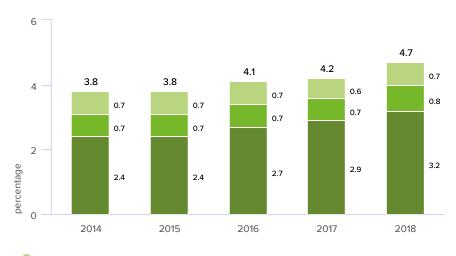
Raising awareness of importance of long-term employability

When it comes to long-term employability, all our employees make their own decisions. While some employees are keen to achieve a good work-life balance, others who perform more physically demanding work may be interested in taking on a less physically demanding role so that they can continue working until they reach their retirement age. To raise awareness in this area, we organised a long-term employability event in September, where employees could take workshops with career counsellors, for instance. Moreover, during the year under review, employees at various business units started using the Koersplan ('Course plan') tool to work out which investments need to be made to ensure they remain highly employable, both today and in the future. In addition, starting in October 2018, employees with career questions have been able to contact Loopbaanplein ('Career Plaza'), a central location where they can consult with a career counsellor.

Absenteeism

In 2018, the absenteeism rate was 4.7% (2017: 4.2%). The average for our sector in the Netherlands is 4.5%. The rise in absenteeism is attributable to the flu epidemic at the start of 2018 and an increase in long-term absenteeism. Together with our occupational health and safety service, we made plans to improve the prevention and reduction of absenteeism. We also looked at best practices within Alliander. We will therefore continue to invest heavily in absenteeism reduction in the years ahead.

Absenteeism



Short-term (1-7 days)Medium-term (8-42 days)Long-term (> 42 days)

Alliander as an employer

Employees are an indispensable link in the daily performance of our tasks. Alliander acknowledges the importance of good employment practices and has the ambition to be a top-class employer. At a top-class employer, employees trust the people they work with, are proud of what they do and work in a pleasant atmosphere with colleagues, customers, suppliers and partners to ensure the energy supply for a sustainable tomorrow. They are also given plenty of opportunities to work on their development to ensure their long-term employability. Employees of Alliander come under the collective labour agreement for network companies.

Employee satisfaction

Every year, we conduct our Great Place to Work employee survey to find out how our employees rate our culture and how satisfied they are with aspects of their work and working environment. The 2018 survey had a response rate of 77% (2017: 79%). The general opinion (the average for all statements in the survey) in 2018 was 70% (2017: 71%). Traditionally, employees are proud of the work they perform (73%) and think they are treated fairly, irrespective of gender, ethnicity, sexual orientation or age (71%). In total, 75% said they thought Alliander was a 'great place to work'. The findings of the employee survey are discussed every year by all managers and employees, and tips are shared and compliments given.

Training and development

In order to enable everyone to learn at any time, regardless of their age, the Alliander Opleidingen training centre has established two training programmes. Alliander College offers various non-technical courses as well as advice in the area of training, while Alliander Technische Bedrijfsschool offers courses that provide our technical employees with training in the areas of skills and professionalism. In 2018, Alliander invested 3.4% of its wagebill in employee training (2017: 3.3%).

Alliander Opleidingen

Alliander has a training centre to help employees develop their skills in key areas such as technology, safety and leadership. To ensure that all our employees are, and remain, optimally equipped to face the challenges of the energy transition, we invest in them and help them develop vital professional skills. To this end, we offered training and other learning experiences in 2018. Supporting the development of our employees and finding high-quality staff also poses a challenge from a risk management perspective. Alliander therefore actively develops competences through trainee and talent management programmes. Through its in-house vocational training institute (Alliander Technische Bedrijfsschool), Alliander Opleidingen helps to reduce the technical skills shortage by offering a broad range of competence-oriented apprenticeship-based programmes from a basic to a highly skilled level. Alliander Technische Bedrijfsschool is a centre where employees can work on their development and undergo further training in the areas of safety, quality and professional skills. We trained a total of 195 people at Alliander Technische Bedrijfsschool during the year under review.

Career centre

The career centre supports all Alliander employees who are reviewing their employment options, either to make the next step in their career or because their work has been, or may be, redefined or terminated. Career counsellors help employees to discover their talents and find the most suitable role for them, either inside or outside Alliander. We believe that everyone is worth investing in, and we do this by offering internships, secondments and training.

We talk to employees about their future development in their current role or elsewhere. By making timely investments in our employees, we try to avoid redundancies wherever possible.

During the year under review, 308 employees requested support from the career centre (2017: 286). A total of 67 colleagues became redundant in 2018 (2017: 49), and 241 (2017: 237) people to whom redundancy did not apply (or did not apply directly) also made use of our career centre. Thanks to this assistance, 94 employees managed to find a new job or an appropriate alternative (2017: 104).

New collective labour agreement for network companies

The collective labour agreement for network companies expired on 1 May 2018. In the beginning of the year, the employers and trade unions entered into negotiations on issues such as salaries, long-term employability, training and development, work-life balance and greater scope to choose between time and money. In November, the negotiations reached an outcome, which the trade unions agreed with. The collective labour agreement is attractive to current and future employees. It offers a combination of a salary increase, a personal budget and additional leave that provides employees with the greatest possible scope to choose between money and free time in every stage of their life, and also allows them to save up leave. In addition, employees aged 62 and over are able to make use of a vitality scheme, under which they can reduce their working hours without affecting their pension accrual.

Employee participation

Arnoud Rikmenspoel, chair of Alliander's Works Council (up to and including 8 January 2019)



"In its consultations with the Management Board, the Works Council discusses the huge challenges that Alliander faces: completing the work package, the energy transition, the heating transition, and cost-awareness and efficiency. We started to discuss these focus areas in 2018. The Works Council expressed what employees think about these themes and how they perceive them. This feedback (which employees also provided in the employee satisfaction survey) helped to identify the need for communicating information to employees, and this is happening more frequently and effectively.

Getting our cost level to the required level presents a challenge, given the sharp rise in the amount of work to be done and the heavy demands placed on us by the energy transition. The Works Council and the working groups discussed the topic of cost-awareness with programme management and the directors. In the next step, the Works Council will form its own ideas about these plans and formulate its feedback.

Furthermore, the Works Council issued recommendations on the sale of Allego. The Works Council was kept properly informed throughout that process. In addition, the Allego employee participation working group provided important information to the deal team, which clarified what colleagues at Allego thought of the sale and the areas about which they had concerns. The Works Council was keen on the potential buyer that remained once it had had the opportunity to meet that party. The Works Council and the working group were unanimous in communicating their positive impression to the Management Board.

We will work with the new Works Council (which was elected in December 2018) on modifying the Works Council's structure to reflect Alliander's more compact organisation. This Works Council has been reduced in size (from 17 to nine members) and will act more as a discussion partner for the Management Board in leading the employee participation process. When it comes to forming opinions on the facts regarding changes in the organisation, the Works Council will rely on the opinions of committees and working groups."

Ethical conduct under the new Alliander Code of Conduct

The Alliander Code of Conduct sets out how we deal with each other, business partners, company and personal interests, business assets, confidential and non-confidential corporate information, and safety. In this way, we protect Alliander's customers, business relations and reputation, and work together to ensure a pleasant and safe working environment. Failure to comply with the Code of Conduct can have serious repercussions that can extend as far as dismissal. The Code of Conduct evolves to reflect changes in society, the energy sector and our company, and was updated in 2018.

Every employee has to follow the compulsory e-learning module, 'Zo doen we dat bij Alliander' ('That's how we do things at Alliander'). This module is offered in phases and on a regular basis in order to ensure constant awareness. Taking the new Code of Conduct as a basis, we changed the module during the year under review to include additional case studies. These new case studies cover matters such as criminals who attempt to pressurise our colleagues into helping them set up cannabis factories, as well as copper theft, diversity and preventing market abuse.

In the year under review, 27 potential violations of the Code of Conduct were reported. Three of these reports led to the investigation of possible conflicts of interest. In seven instances, the outcome was dismissal, the termination of a temporary contract of employment or the termination of another form of temporary work.

Labour market for technical talent

The shortage of technicians poses a challenge for the entire energy sector as well as society as a whole. In 2018, we filled 628 vacancies, including 294 vacancies for technical positions in operations. Finding suitable candidates is becoming increasingly difficult. Moreover, training people to carry out our specific work takes a long time and puts great pressure on experienced operational staff. We believe it is our task to ensure a growing job market for technicians in the next few years. We are doing this by, among other things, demonstrating how interesting and challenging our work is. We offer training opportunities to newcomers to our sector, young people, and people at a distance from the labour market, and we work with the education sector to increase interest in technology among young people, their parents and teachers.

Alliander Werft!

For several years, we have actively conducted an intensive recruitment campaign on several fronts (both internal and external) to highlight the shortage of technicians within our company. Employees can introduce new technicians to Alliander through the internal referral programme, 'Alliander Werft!' ('Alliander is recruiting!'). Various new roles were added to this programme in 2018. A total of 145 potential candidates were introduced through the programme in 2018, and 45 of them were offered a contract.

In 2018, we made six virtual reality videos to provide a real-life experience of what our work involves. Some 2,500 technicians who work for Alliander received a VR headset so that they could show the videos to their families and friends. The videos have also been used in our recruitment campaigns and in job interviews. This way of demonstrating how interesting our work is reinforces our image of an attractive, modern employer. We also noted that it makes our employees more proud of the work that they do.

We developed a procedure to assess whether individuals without a technical background or relevant previous education have an affinity with technology. This will promote the influx of promising newcomers from other sectors. In addition, we make use of training capacity at external parties.

Strengthening ties with the education sector

We are aware that a technical job is not high on the list of preferred career options. In response to this situation, the government, construction companies, technology companies and educational institutions are joining forces. During the year under review, the establishment of a construction and engineering innovation centre was announced and work was done on creating a shared, appropriate range of training courses (including courses leading to senior secondary vocational education and training qualifications). In addition, energy companies are strengthening their ties with educational institutions and schools to introduce children and young people to the fulfilling and inspiring field of energy technology at an early stage. At the end of the summer, eleven students with senior general secondary education (HAVO) diplomas started a new training course at Alliander. Over the space of two years, we will train these students for a graduate-level technical role, and at the end of the course they will be awarded a recognised qualification in electrical engineering. The students will also work for us through the Liander, Qirion and Kenter business units. This programme is the first joint venture in the area of electrical engineering between the business community and the education sector in the Arnhem-Nijmegen region.

We have furthermore seen that technical preparatory secondary vocational education institutions have stopped offering certain technical courses due to low numbers of students taking those courses. That is why, within our service area, Alliander is holding talks with institutions with the aim of relaunching those courses. For instance, in 2018 we stepped up our collaboration with Vakschool Technische installaties (VTi). As a result, ROC van Amsterdam relaunched its infra energy technology course in the autumn. Alliander offers workshops, attends open days at schools, gives tours and makes its time and materials available.

'Electricity is the same wherever you go'

Since December 2017, Firas Khalaf has followed a training programme that leads to a senior secondary vocational education and training qualification (MBO 3) in electricity network installation and maintenance. Liander and construction group BAM help asylum status holders to find work and build a future in the Netherlands. Liander is very happy to have these highly motivated newcomers to our sector as employees, but Firas is even happier. "I fled Syria and came to the Netherlands four years ago," he explained. "I had to leave my old life behind, and now I'm building a new life here." Having worked as a fitter in Syria, Firas is now being trained as an electrician. He does not see much difference between the two. "Electricity is electricity", he said with a smile. "It's the same wherever you go."



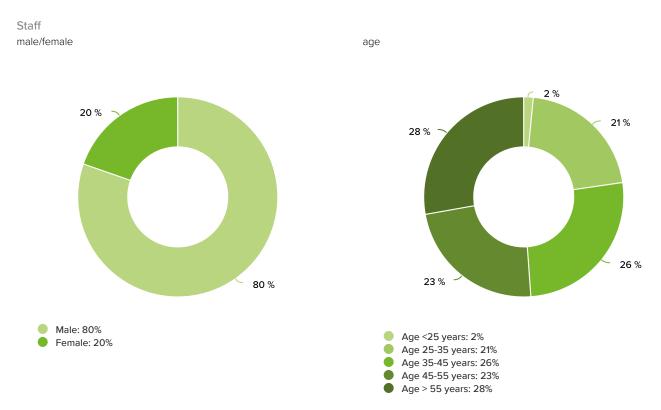
It is a morning in December. Three Liander vans drive into a dark street in Brummen. The street lights have been off for some time due to an outage. Firas and his colleagues have come to repair the fault.

The rain is pouring down. Firas enters the transformer hut, puts his hard hat on, and switches off the voltage in the network, following instructions given by his supervisor, Gert. The neighbourhood will be without electricity for the next few hours. "Safety in the workplace is extremely important in the Netherlands, and we've learned a lot about it on our course. There aren't any clear safety rules in Syria, and personal protective equipment isn't always used." Firas sat a maths test the previous day. He only has a few more tests to go before he gains his qualification. "I found the course hard at first," he admitted. "Things like installation diagrams and arithmetic were easy, but the language was difficult, although things improved after a few months."

Firas and two colleagues walk past the lampposts in the rain as they work out where the fault is located. The precise location of the fault is pinpointed using special, highly accurate equipment, following which Firas can make a start on the repairs. An old lady comes out of her home. "How long's it going to take?" she asks. She is unable to watch television or use the telephone. Firas is certain that the street lights will be working again by the end of the afternoon. "There are always people who come along and ask questions. That's part of the job, too." What Firas enjoys most is constructing new installations. This means working with a great deal of accuracy, which he enjoys. A smile flashes under his hood: "That, and working outside in the sunshine."

Composition of the organisation

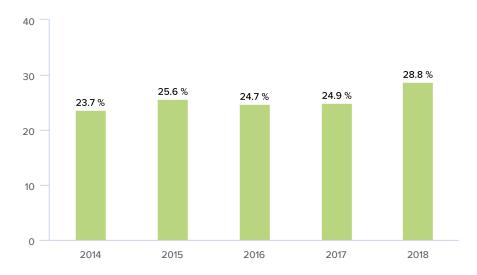
Alliander has a diverse workforce, in terms of competences (we employ many technicians and ICT staff, as well as experts in change management and finance), age, gender and cultural background. We believe that we need diversity to fulfil our mission – reliable, affordable and sustainable energy for everyone – during the challenging energy transition of today. We need to reflect the level of diversity within society, among our customers and in the labour market. Having a policy on diversity and inclusion forms part of our corporate social responsibility.



An organisation where everyone feels at home

Alliander aims to be a diverse company, where everyone counts, feels at home and can use their talents to the full. Although energy-related jobs are regarded as typical men's work, we try to build and maintain a varied workforce because we believe 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 or ethnic background, religion or sexual orientation. That is why we encourage the recruitment of women in leadership positions, employees with an immigration background and people at a distance from the labour market. In 2018, around 7,450 people worked for Alliander (approximately 6,800 FTEs). This figure comprises all Alliander employees, including contract staff. The majority (80%) are male. There is proportionate representation of different age groups. The percentage of women in leadership positions rose from 24.9% to 28.8% during the year under review. This is Alliander's highest percentage ever, and an extremely high percentage for a company in the technical sector. We have initiated targeted efforts to increase this percentage further.

Percentage of women in leadership positions



Percentage of women in leadership positions

The percentage of women in leadership positions has increased in recent years, from 23.7% in 2014 to 28.8% at year-end 2018. The general trend is upwards, with fluctuations due to changes in the organisation and staffing. This clear upward trend is attributable to the diversity policy pursued by Alliander in recent years. The main key points of this policy are demonstrating exemplary behaviour and explicit support at the top of the organisation, setting specific targets, and ensuring equal opportunities for women in selection procedures.

In view of the success of this policy, it was decided that the deadline for reaching the final target would be brought forward by a year. Our new target is to have women in 33% of leadership positions by 2024 (was 2025).

Employer of choice

Alliander seeks to be an employer that appeals to all. To present Alliander to students from a migrant background, we organised a multicultural day in-house and participated in diversity expertise centre ECHO's mentoring programme during the year under review. We did this with the aim of countering the views and preconceptions we may have in this regard. The theme was placed on the agenda throughout the organisation by means of a campaign, a 'pigeonhole' test and an integration dinner. We believe that human contact helps to build better connections with colleagues, suppliers and customers.

Besides our focus on inclusion and diversity in the context of HR and leadership, we also run special networks for employees: Pride (for LGBT employees), Lianne (for women) and Tension (for young employees). These networks are extremely important to employees and to the organisation.

Offering opportunities to people at a distance from the labour market

Alliander believes that people in work feel more engaged with society. This is why we have been helping people at a distance from the labour market to find work since 2009. Our Step2Work programme has given approximately 850 people the opportunity to gain work experience, thus increasing their opportunities on the labour market. A total of 95 people were offered apprenticeships through Step2Work in 2018. This figure included 25 people who were offered apprenticeships through the I'm Power programme in Amsterdam. During the year under review, we also stepped up our focus on long-term employment for people who come within the scope of the Dutch Participation Act. In 2018, we had more than 32 people in positions coming within the scope of the Dutch Participation Act, including 21 people who were not part of the Step2Work programme.

Employing asylum status holders

Our original intention was to provide training and work experience for five asylum status holders in 2018. We are pleased to report that Alliander eventually managed to recruit eight highly motivated asylum status holders. They now work for Alliander.

During the year under review, ten asylum status holders followed a programme at Alliander to obtain a senior secondary vocational education and training qualification in electricity network installation and maintenance. They are being trained as electricians by Alliander and construction group BAM over a period of three years. Their five-month vocational training, which includes a specific focus on the Dutch language, is followed by an eight-month internship at BAM. They start putting their training into practice under the supervision of an experienced electrician. If everything goes well, they then start work as an apprentice electrician at Liander in order to acquire further technical skills. Alliander is the client, while BAM and the relevant municipalities are co-investors in this project. Those who complete the programme are guaranteed a permanent contract at Liander. The Foundation for Refugee Students (UAF) shared its knowledge and experience to help us develop the training programme for this group of asylum status holders. We expect that the first group will obtain their qualifications at the start of 2019. Ten new asylum status holders will be trained as electricians in 2019. Besides the group being trained as electricians, a further eight asylum status holders worked in various divisions of Alliander. If these people are included, a total of 18 of asylum status holders followed a training course in 2018.

Alliander Foundation

The Alliander Foundation encourages and helps our employees to engage in voluntary work. In 2018, 896 volunteers took part in activities and the foundation gave financial support to 80 employee projects. An amount of € 190,000 was spent on these projects and activities. Besides traditional team activities, such as volunteering and social activities with a target group, there is growing interest in activities in which teams put their knowledge to use for a good cause. Alliander is proud that the Foundation supports employee volunteering. The object of the Alliander Foundation is to encourage employees to make a charitable contribution to society in their spare time. In turn, the employees experience benefits such as an opportunity to broaden their horizons. The emphasis in the voluntary work is on independent organisation and on involving other colleagues in the initiative. In 2018, Alliander's Management Board decided to support the Alliander Foundation for a further period of five years (from 2019 up to and including 2023).

Internal compensation ratio

The transparency of compensation ratios within organisations is the subject of global debate. Alliander aims to report openly on this issue. The total income of the CEO is 3.7 times the median salary of all Alliander employees in the Netherlands. This is lower than the average for the 1,000 largest companies in the Netherlands.



Sarike van Wette is 2018's top talent

Sarike van Wette, Strategy & Environment Manager, was the winner of the Young Talent Award 2018. The judges: "Sarike is a role model for young talent. She's able to win over people from all walks of life, and stays positive no matter what she has to deal with. She earns people's trust and is extremely dynamic." The Young Talent Award, which is presented by the foundation Stichting Topvrouwen, is intended to encourage talented, upwardly mobile young women. The aim of the foundation is to provide a platform where talented women at Dutch organisations receive attention, are visible and are therefore able to act as role models.

Changes in the organisation

In June 2018, Alliander sold its subsidiary Allego to Meridiam, a French investment company specialised in the development, financing and management of long-term and sustainable infrastructure projects. The entire business, including all 93 employees who were on Alliander's payroll, was transferred to Meridiam with effect from 1 June 2018.

Shareholders and investors

As a major energy network company, we have an important function in Dutch society. Consequently, our social, financial and sustainability performance plays a significant role in the considerations of shareholders and investors. And having a sound financial position enables us to perform accordingly.

Our civil-society and financial stakeholders have identified the following themes as being of material importance to them (the figures correspond to the position in the materiality matrix):

- corporate social responsibility in the supply chain 100
- responsible investment policy ®



How finance and sustainability go hand in hand

Thanks to our financial position, we are able to continue to invest in our networks and grow the business. This enables us to pursue our strategy and play a facilitating role in the energy transition. Our financial policy is designed to allow us to maintain a solid A rating. There is evidence that sustainability considerations are an important part of the deliberations of shareholders and other investors alongside sound financial policy. Alliander supports the significance of sustainability and so the company's sustainability targets play a prominent role in the management of the business and external financing. Our efforts are being rewarded, as shown by the B+ sustainability classification awarded by the rating agency, Oekom, which is the highest rating of all the companies operating in the network sector rated by Oekom, including European, American and Asian companies.

Financial policy

Financial framework

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

Ratios on the basis of Alliander's financial policy

	norm	31 December 2018	31 December 2017
FFO/net debt 1	> 20%	32.2%	27.4%
Interest cover ²	> 3.5	12.9	10.2
Net debt/(net debt + equity)	< 60%	33.8%	34.4%
Solvency ratio ³	> 30%	57.3%	56.7%

- The funds from operations (FFO)/net debt ratio is the 12-month profit after tax adjusted for deferred tax
 movements and incidental items and fair value movements plus depreciation of property, plant and equipment
 and amortisation of intangible assets and accrued 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, for the 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 obtained by dividing total equity including the profit for the period by total assets less the expected dividend distribution for the current year and deferred income.

As at 31 December 2018, the FFO/net debt ratio amounted to 32.2% (year-end 2017: 27.4%) compared with a required minimum of 20%. The increase is mainly accounted for by a relatively greater increase in operating profit compared with net debt.

As at 31 December 2018, the interest cover ratio worked out at 12.9 (year-end 2017: 10.2). The increase is mainly accounted for by lower interest expense and an increase in the operating profit. 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 2018 amounted to 33.8% (year-end 2017: 34.4%). Alliander's financial policy stipulates that this ratio should not exceed 60%.

The solvency ratio as at 31 December 2018 amounted to 57.3% (year-end 2017: 56.7%), compared with a minimum of 30%. The increase compared with 2017 is mainly due to the relatively large increase in equity.

Dividend policy

The dividend policy (as part of the financial policy) provides for distributions of up to 45% of the profit after tax, adjusted for non-cash incidental items, unless the investments required by regulators or 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. Ordinary investment proposals are tested against minimum return requirements and criteria as set out in the financial policy. Innovative schemes require specific Management Board approval. As well as quantitative 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 duties.

Economic performance

Alliander makes a major contribution to the prosperity of the Netherlands, indirectly through the considerable impact which the distribution of energy has for the Dutch economy and for the quality of life experienced through the permanent availability of energy. This is further explained in our impact model, Our impact and value creation section. We have a direct impact through the value of income for our stakeholders and through earnings, salaries and fees, donations and other investment in society. This is set out in note 24 of the Financial Statements. The dividend distributed to shareholders and payments to providers of capital and government authorities make an indirect contribution to social goals. The way these items are allocated and used is set out below.

Our financial stakeholders

Alliander pursues an active policy of maintaining an open and constructive dialogue with shareholders, bondholders, financial institutions, credit rating agencies, sustainability rating agencies, analysts and the media. We try to provide all stakeholders with timely and accurate relevant information on finances, strategy, risks, sustainability and other matters, in reports, in press releases and in meetings as well as by other means.

All of Alliander's shares are held directly by Dutch provincial and municipal authorities. A full list of the shareholders can be found on http://www.alliander.com/. The authorised share capital of Alliander N.V. is divided into 350 million shares with a nominal value of €5 each. All the shares are registered shares. As at 31 December 2018, there were 136,794,964 issued and paid-up shares. Contact with shareholders primarily takes place during the shareholders' meetings. Alliander also organises contacts between the company and its shareholders outside of the shareholders' meetings. A summary of the various shareholder dialogue structures can be found on the Alliander website.

Institutional investors

Institutional investors in our bond issues, such as asset managers, insurance companies, pension funds and banks, provide a large part of our financing in the form of debt. These are mostly Europe-based professional players on the international financial markets. We keep existing and potential bondholders informed regarding the company's financial position and results as well as developments in the industry by actively engaging in investor relations activities in addition to complying with ordinary publication requirements. In this context, in April 2018 we met investors in Amsterdam, Frankfurt, Paris and London to discuss the 2017 figures. In September 2018, we held a conference call on the half-year figures. Various matters were covered on both occasions, including the sale of Allego, the major campaign to install smart meters and the impacts that the phasing-out of gas and the growing numbers of electric vehicles will have on Alliander.

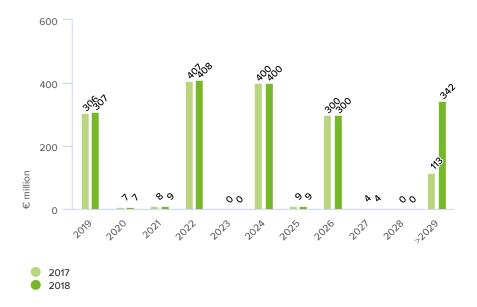
Issue and repurchase of perpetual bonds

On 29 January 2018, Alliander announced the intention to issue a new subordinated perpetual bond loan. At the same time, an offer was made for all the outstanding bonds of the €500 million perpetual bond loan issued in 2013, conditional upon the successful issue of the new loan. Subsequently, on 30 January, €500 million in new subordinated perpetual bonds was successfully issued at a coupon rate of 1.625% and an issue price of 99.144%. By the offer closing date of 5 February, applications were found to have been received from investors for repurchase by Alliander of bonds totalling approximately €413 million from the 2013 issue. The remaining amount of approximately €87 million in bonds that are still outstanding is redeemed under the terms of the loan on 27 November 2018 at 100% of the nominal value by exercising the first right of redemption. In line with Alliander's financial policy, the new bond loan will be treated as 50% equity in the financial ratios. The current recognition as equity will be continued under IFRS.

Interest-bearing debt

The repayment schedule for the interest-bearing debt as at year-end 2017 and 2018 was as follows:

Repayment schedule for interest-baring debt



The amounts scheduled for repayment in 2019, 2022, 2024 and 2026 mainly relate to bond loans. The other amounts relate to the repayment of shareholder loans and other loans. Alliander has a \leqslant 3 billion EMTN programme. As at 31 December 2018, the carrying amount of the outstanding bonds was \leqslant 1,395 million (nominal value \leqslant 1,400 million). Alliander has available an ECP programme totalling \leqslant 1,500 million which can be used to issue short-term debt instruments. Alliander issued ECP loans at various times during the year but there were no ECP loans outstanding as at year-end 2018.

Banks

In July 2018, Alliander renewed its existing committed €600 million back-up credit facility for one year. The facility now runs to July 2023. The facility has been entered into with six banks. As in previous years, this facility was not drawn on during the year.

In June and November 2018, the final two tranches of the loan from the European Investment Bank, amounting to €100 million and €125 million, respectively, were drawn down. This loan, totalling €300 million drawn in three tranches, was contracted in July 2017. The first tranche of €75 million was borrowed in September 2017. The loan becomes repayable in full in 2031.

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. Alliander uses credit ratings for this. Having a 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 credit ratings 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 long-term rating over the next few years. S&P and Moody's have kept both ratings and outlook unchanged. The credit ratings as at year-end 2018 were as follows:

	long term	short term
Standard & Poor's	AA- (stable outlook)	A-1+
Moody's	Aa2 (stable outlook)	P-1

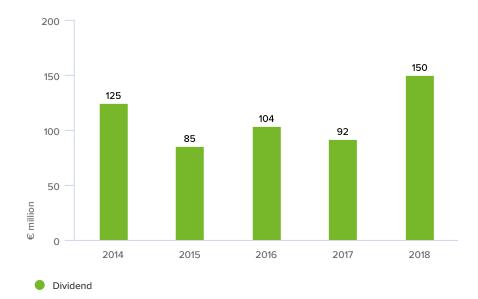
During the reporting period, Alliander was in contact with the rating agencies on several occasions. Discussions included the sale of Allego, the shortage of technical staff, cost savings and the challenges of the climate change targets and the energy transition. Based on the recent financial performance and forecast figures for Alliander presented on these occasions, S&P and Moody's reassessed Alliander's creditworthiness and confirmed the existing ratings and outlook.

Proposed profit appropriation for 2018

The Management Board has determined, with the approval of the Supervisory Board, to add €184.1 million of the profit to the other reserves. The remaining profit of €150 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 2018 financial year.

Dividend

The dividend for 2018 is up by €58 million compared with 2017 owing to the higher net profit for 2018, which is mainly explained by the fact that there was an incidental book profit on the sale of Allego in 2018.



Zevenaar town council: 'Energised by our energy transition'



The Board of Mayor and Alderman of the Municipality of Zevenaar (one of Alliander's shareholders) set forth an ambitious energy policy in their council programme. The municipal organisation aims to be climate-neutral by 2025, with the goal of achieving the same thing for the entire municipality by 2040. 'This is not about compulsion,' says Carla Koers, who has responsibility for Environment and Sustainability on the council, 'this is about people doing their own thing.'

The council has already done quite a lot. The town hall and other council buildings have solar panels on their roofs and much of the council's vehicle fleet is electric. 'Fairly basic stuff,' admits Koers, 'but we are now taking

the next step in reducing our carbon footprint. We are looking at our remaining diesel-engined vehicles, encouraging waste separation and formulating our vision for heating. We are canvassing local people for ideas and actions for making the various parts of the town gas-free and more energy efficient. We are starting a trial in two districts next year and also embarking on power generation from renewables in a big way.' Koers observes that this is very much a hot topic in the town. 'The people of Zevenaar believe that it really is now time for a change. Businesses are putting their heads together and people themselves are coming up with ideas for a future without gas.' She laughs: 'People are getting really energised about it.' Koers has agreed with the council that nothing will be compulsory. 'We are consulting with the people who live here and giving them a blank sheet for them to decide which way they want to go. The local authority is merely creating the frameworks.'

Koers wants to start drawing up plans for the heating vision as soon as possible. And any help that Alliander can give will be very much appreciated. 'We want to identify right from the outset where the problems are, who performs what role and how we can help each other. Energy storage is a major stumbling block in the transition, but capacity is also a big problem – both network capacity and the availability of technical staff. In the masterclass organised by Alliander for municipal authorities, we saw how big those problems are. So it is great to be able to talk about them with each other – and with other municipal authorities. We really need each other. Let's find the right solutions together.'

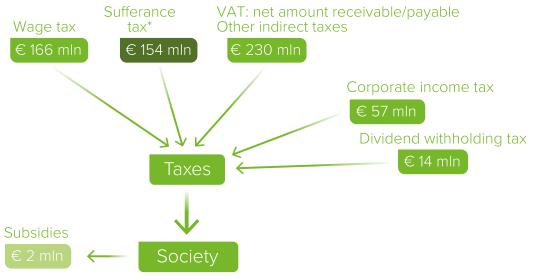
Alliander's tax and subsidy matters

Alliander takes great trouble to meet all its legal obligations with regard to tax and subsidies, both on time and in full. Based partly on the dialogue and cooperation with our stakeholders (both inside and outside the company), we have adopted the following principles with regard to all our activities relating to tax and subsidies:

"We are a bona fide taxpaying company that makes a fair contribution to society through the tax which it pays."

To this end, we have set ourselves the following goals:

- To be compliant with all primary and secondary legislation relating to tax and subsidies both at home and abroad.
- To be transparent concerning the tax payments we make in our financial reporting, such as in the financial statements.
- We are totally transparent vis-à-vis internal and external stakeholders with regard to all relevant files relating to tax
 and subsidies. Stakeholders include the Dutch Tax & Customs Administration, the Netherlands Enterprise Agency
 (Dutch acronym: RVO), the Supervisory Board, the Management Board and internal departments such as Human
 Resources, Regulation, Risk Management, Legal Affairs and Internal Audit.
- We make an active contribution to tax awareness and culture within Alliander through targeted briefing and, where necessary, directives. As a taxpaying company, Alliander is liable for various taxes, chief among which are corporate income tax, wage tax and VAT. The following chart outlines the main cash flows.



* Sufferance tax refers to local authority levy

Prudent management of tax risks

Obviously, Alliander always acts within the bounds of primary and secondary legislation. The driver for operations will never be purely tax considerations. Where there is any doubt about the interpretation of tax law we engage in advance in a constructive and transparent dialogue with the Dutch Tax & Customs Administration (and with the RVO where subsidies are concerned). This is entirely in line with the Enforcement Covenant entered into with the Tax & Customs Administration under the 'Horizontal Supervision' arrangements and echoes the general principle of compliance already alluded to. The implementation of our tax strategy also reflects Alliander's risk management model and the Tax Control Framework is used in the mitigation of risk.

Current tax-related developments

In November 2010, Alliander issued a subordinated perpetual bond loan with a nominal value of \in 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 periodic payments made to the holders of the bonds issued in 2010 would count as deductible interest expense 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. In the ongoing appeal proceedings, the Arnhem Court of Appeal upheld Alliander's case. The tax authority is seeking to have this ruling overturned. As at year-end 2018, the total maximum exposure for Alliander including interest was €38 million.

Considered approach to grant applications

As a large corporation, we also have a responsible approach when it comes to subsidy schemes. We do a lot of innovative work, especially in the context of the energy transition. Various schemes are available for this kind of activity, at international level, at national level and at regional level. We focus on grants that are intended for large corporations rather than those for regional activities. We recognise our responsibility in this area and, at regional level, deliberately leave the field open for other companies to develop smaller sustainability initiatives by only applying for such grants where appropriate.

Financial results in 2018

Financial flows within Alliander

Alliander's income is made up of approximately 85% income from the regulated activities of Liander and 15% other income, the latter being income from rental of large-user meters, income related to new activities, activities outside the Netherlands and from the activities of other companies outside the regulated energy sector. Network operator Liander will be publishing its own annual report on its performance in 2018 during the second quarter of 2019.

The main expenditure relates to maintenance work on the electricity and gas distribution networks and the operating expenses connected with all other activities. On top of that, we invest in excess of half a billion euros a year in capital projects, mainly concerned with replacing existing assets and expanding the networks, as well as the installation of smart meters. This investment equates to roughly 30% of our total expenditure. Additionally, there is the dividend payable to our shareholders and the interest payments to the holders of the subordinated perpetual bond loan and the providers of borrowed capital. The dividend and interest payments for 2018 together amounted to approximately 8% of our overall expenditure. Finally, we pay sufferance tax charges to municipal authorities and corporate income tax to the Dutch Tax & Customs Administration. This accounts for another 10% of our outgoings approximately.

Cost-effective and efficient operations

In order to continue being able to make responsible investments in the future, Alliander is trying hard to bring costs down. In 2018 we launched an organisation-wide long-term programme aimed at identifying potential savings and reducing the cost base going forward. We are encouraging greater cost-awareness throughout the organisation by critically focusing on what is really necessary for performing the job we do – without compromising safety or quality. We are also exploring how we can work as efficiently as possible so as to be able to do more as well as cut costs. Many initiatives are accordingly aimed at simplifying our organisation, processes and activities. We also stopped automatically filling vacancies in the corporate staff departments and support services in 2018, which has led to a drop in the number of indirect staff, and we are not so ready to take on temporary staff either.

Income statement for 2018

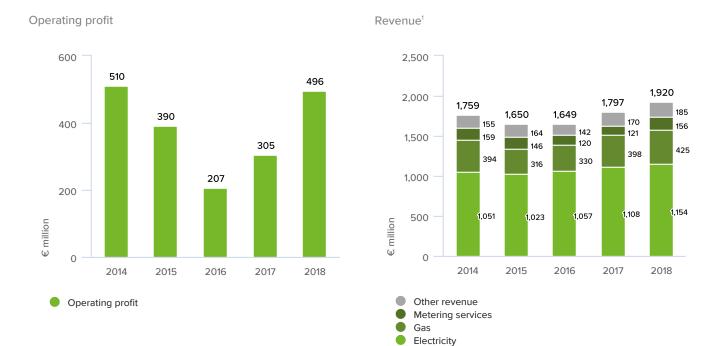
The profit after tax for 2018 was €334 million (2017: €203 million). The increase is mainly accounted for by the book profit on the sale of Allego, amounting to €105 million, in 2018.

Profit after tax excluding incidental items was €261 million, which is €55 million higher compared with 2017 (€206 million). This was mainly as a result of higher operating income.

Operating income in 2018 was up by €228 million compared with 2017, at €2,068 million. This was mainly because of the book profit on the sale of Allego (€105 million) and an increase in regulated revenue resulting from an increase in regulated tariffs.

Total operating expenses for 2018 were €1,572 million, which is €37 million higher than in 2017. The increase is mainly the result of increased sufferance tax costs, increased purchase costs connected with the work that is in hand and higher amortisation/depreciation charges. Alliander continues to work towards increased effectiveness and efficiency.

The significant trends in income and expenses are discussed below in greater detail.



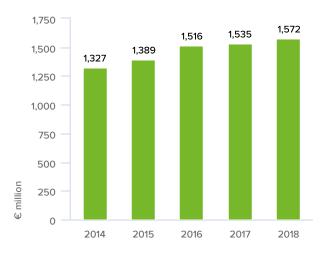
1 To facilitate comparison, the revenue figures in this summary have been restated back to 2014 following the implementation of IFRS 15.

Revenue

Revenue in 2018 rose by \le 123 million compared with the previous year, from \le 1,797 million to \le 1,920 million. The rise is mainly due to the increase in regulated tariffs (\le 93 million) and an increase in the number of electricity connections (\le 12 million).

Most of our revenue is generated by regulated activities. Alliander also has non-regulated activities, such as those of Qirion and Kenter.

Operating expenses



Operating expenses

Operating expenses

Total operating expenses rose from €1,535 million in 2017 to €1,572 million in 2018. The increase was the net effect of:

- an increase of €22 million in the costs of contractors and materials as a consequence of the greater volume of
- an increase of €1 million in employee benefits. The number of external personnel hired in 2018 was substantially lower than in 2017 and there was a small reduction in the number of permanent staff. Offsetting this to some extent, however, the average cost per FTE employee was higher;
- compared with 2017, there was a greater volume of capital expenditure projects, resulting in an increase of €13 million in capitalised production, to €241 million;
- the increase in the investments also meant higher depreciation charges of €10 million;

636

2017

an increase in sufferance tax, of €17 million, due to retrospective levying of tax by municipal authorities in the area previously served by Enexis.

637

The significant trends in expenses are discussed below in greater detail.

585

2016



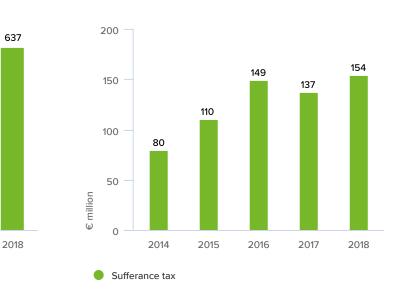
583

2014

592

2015







700

600

500

400

300

200

100

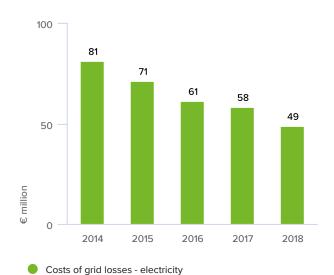
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The total costs for both internal and external personnel were €1 million higher than in 2017. In the case of Liander, this is due to an increase in the number of employees despite the shortage of skilled technical staff on the labour market. This is growth that is necessary because of the growth in the volume of work. The number of permanent staff did actually fall overall, mainly accounted for by a reduction in the number of indirect staff. However, owing to the new CLA and bonuses aimed at staff retention, the total wage bill for permanent staff rose in 2018.

Sufferance tax

The amount of sufferance tax charges rose by \in 17 million compared with 2017, to \in 154 million. The trend in the amount of sufferance tax payable over the past five years is illustrated in the above graph. The increase until 2016 was largely because more and more municipal authorities were levying sufferance tax on Liander and also that sufferance tax rates have risen. The fall of \in 12 million in sufferance tax charges in 2017 was mainly a result of a release from provisions related to successful legal proceedings. The higher figure in 2018 is accounted for by the fact that several municipal authorities in the former Enexis service area imposed retrospective tax charges.



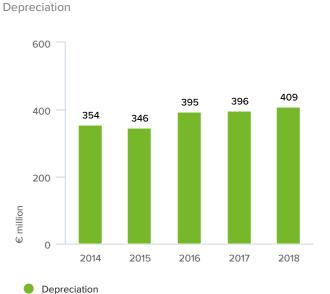


Transmission capacity costs

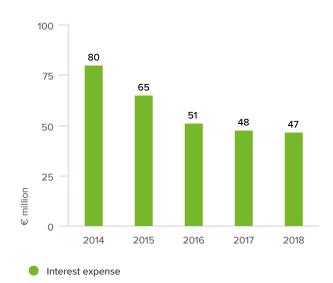


Transmission capacity costs

The costs of providing transmission capacity passed on by electricity transmission network operator TenneT showed a further increase of \in 3 million in 2018 to \in 191 million (2017: \in 188 million). This increase is mainly the effect of an increase in volumes. The costs of grid losses, at \in 49 million, were down by \in 9 million compared with 2017. The lower costs were mainly due to gains on reconciliation plus the lower tariffs at which the losses were purchased.



Third-party interest charges



Network investments and maintenance costs

The graph below shows the expenditure on maintenance costs and network investments, including meters, over the past five years. Total expenditure on network investments and maintenance costs in 2018, at €954 million, was an increase of €138 million compared with 2017 (€816 million). The increase came mainly from an expansion of the work package. Total expenditure investment in district heating networks was also higher than in 2017.

Maintenance costs and network investments



Dilemma: effective investment, but also in good time

Network managers are assessed on the effectiveness of their capital expenditure. This means for example that when Liander decides on an investment, it looks carefully at how necessary it is. The energy transition makes it ever more difficult to predict when and where infrastructure needs to be expanded. There are, for example, many plans for solar farms but only those which receive an SDE+ grant are actually built. This is done within six months once the grant has been awarded. In general, strengthening and expanding infrastructure takes one to three years. To avoid infrastructure hindering the energy transition, it is important that the location of solar and wind farms is known sooner. Network managers and local authorities must draw up joint energy transition plans which underlie effective investment by the network manager. Grants should be awarded in line with this.

Depreciation

The depreciation charges and impairment losses on non-current assets amounted to €409 million, which is an increase of €13 million compared with the preceding year (2017: €396 million). This increase is mainly a consequence of the higher level of investment in recent years.

The construction of energy networks is a long-term investment for us, based on an estimated useful life of 40 to 50 years. The Netherlands wants to become climate neutral by 2050 by replacing natural gas for heating with sustainable heating solutions over the next 35 years. Our question, therefore, is whether and, if so, which part of our gas distribution networks will remain important in the long term for the distribution of, say, alternative gases. Given the current useful life of 40 to 50 years, developments in the heating transition (such as natural gas-free districts) will also lead to part of the gas network being taken out of use prematurely. Regulator ACM is holding discussions on the financial implications with Liander and the other network operators.

Interest expense

Interest expense in 2018 was down by €1 million compared with 2017, owing to lower interest charges on loans from third parties.

Result from associates and joint ventures after tax

The profit after tax from associates and joint ventures for 2018 was €3 million (2017: €9 million). The 2017 result included the non-recurring book profit of €12 million on the sale of The New Motion.

Incidental items

Alliander's results can be affected by incidental items and fair value movements. Alliander defines incidental items as items which in 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 generally applied.

Net incidental items and fair value movements in 2018 combined to give a gain of €73 million after tax (2017: charge of €3 million). 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	Repo	Reported		Incidental items and fair value movements		Excluding incidental items and fair value movements	
	2018	2017	2018	2017	2018	2017	
Revenue	1,920	1,797	-	-	1,920	1,797	
Other income	148	43	105	-	43	43	
Total purchase costs, costs of subcontracted work and operating							
expenses	-1,404	-1,367	-3	-4	-1,401	-1,363	
Depreciation and impairment	-409	-396	-	-	-409	-396	
Own work capitalised	241	228	-	-	241	228	
Operating profit	496	305	102	-4	394	309	
Finance income/(expense)	-46	-43	-	-	-46	-43	
Result from associates and joint ventures	3	9	-	-	3	9	
Profit before tax	453	271	102	-4	351	275	
Тах	-119	-68	-29	1	-90	-69	
Profit after tax from continuing operations	334	203	73	-3	261	206	
Profit after tax from discontinued operations	=	=	=	-	-	-	
Profit after tax	334	203	73	-3	261	206	

Other Income

(2018: €105 million gain, 2017: nil)

The incidental income relates to the sale of the subsidiary Allego in June 2018.

Total purchase costs, costs of subcontracted work and operating expenses

(2018: €4 million charge, 2017: €4 million charge)

The incidental expense in 2018 is made up of a gain of €5 million due to the impact of changes in the CLA and extra costs of €9 million due to organisational changes. In 2017, there were costs of €4 million for organisational changes.

Tax

(2018: €29 million charge, 2017: €1 million gain)

The tax charge in 2018 is mainly a consequence of the change in the deferred tax following the change in the rate of corporate income tax (as from 2020).

Segment reporting

General

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

- Network operator Liander
- Other

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

	Network oper	ator Liander	Otl	ner	Elimin	ations	То	tal
€ million	2018	2017	2018	2017	2018	2017	2018	2017
Operating income								
External revenue	1,772	1,681	191	159	-	-	1,963	1,840
Internal revenue	10	5	313	331	-323	-336	-	-
Operating income	1,782	1,686	504	490	-323	-336	1,963	1,840
Operating expenses								
Operating expenses	1,337	1,313	554	554	-323	-336	1,568	1,531
Operating profit	445	373	-50	-64	-	-	395	309

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, Flevoland and parts of Friesland, Noord-Holland and Zuid-Holland. Liander connects customers to the electricity and gas networks through which it distributes electricity and gas. Operating income in 2018 was up by €96 million compared with 2017, at €1,782 million. Operating expenses were up by €24 million, chiefly owing to an increase in sufferance taxes, higher purchase costs and costs of subcontracted work and higher depreciation. Operating profit at €445 million was €72 million higher than in 2017.

Other

The Other segment covers the entirety of the other operating segments within the Alliander group, such as the activities of Kenter, Qirion, Stam, Alliander AG, Allego, Firan, new activities, the service units and the corporate staff departments. Alliander incurs 'stewardship costs' in the staff departments for the shareholdings in its participating interests. These are not generally recharged to business units. Finally, capital expenditure in the context of the energy transition is recognised in this segment. External operating income in 2018 was up by €32 million compared with 2017, at €191 million. Operating profit for 2018 amounted to €50 million negative (2017: €64 million negative). This improvement is mainly accounted for by higher profits at Kenter and Alliander AG, plus the deconsolidation of Allego.

Balance sheet

The abridged balance sheet as at 31 December 2018 is shown below.

€ million	der N.V. 31 December 2017	
Assets Non-current assets Current assets	7,790 555	7,552
Total assets	8,345	8,069
Equity and liabilities Total equity Non-current liabilities Short-term liabilities	4,129 3,363 853	3,393
Total equity and liabilities	8,345	8,069

The following notes explain the significant changes in the balance sheet as at 31 December 2018 relative to the situation as at 31 December 2017. Detailed information on balance sheet items is given in the financial statements.

Non-current assets

Non-current assets as at 31 December 2018 increased by €238 million compared with 31 December 2017. This increase is mainly a consequence of the higher capital expenditure on the networks and meters in relation to the associated depreciation charges.

Current assets

Current assets rose to €555 million compared with the balance at 31 December 2017. The increase of €38 million compared with 2017 was mainly a result of an increase in net cash and cash equivalents. The proceeds from the sale of Allego represent the main factor behind the positive cash flow in 2018.

Equity

Equity as at 31 December 2018 increased by €187 million compared with the level as at 31 December 2017, to €4,129 million. This increase is mainly accounted for by the net profit for 2018, amounting to €334 million, less the dividend distribution in 2018 relating to 2017 (€92 million). A summary of the movements can be found in note [12] of the financial statements.

Current and non-current liabilities

The amount of non-current liabilities was down by €30 million compared with 31 December 2017. This decline is mainly explained by the repayment of long-term loans.

The current liabilities as at 31 December 2018 were up by almost \le 120 million compared with the position as at year-end 2017, at \le 854 million, mainly as a result of the repayment liabilities on the Euro Medium Term Notes.

Shown below is a summary of the cash flow statement for 2018.

Cash flows

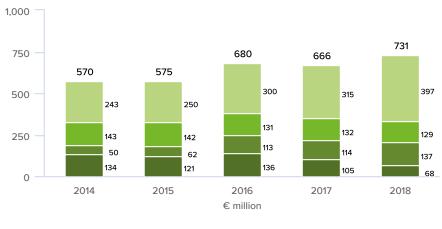
Consolidated cash flow statement

€ million	2018	2017
Cash flow from operating activities	638	454
Cash flow from investing activities	-496	-549
Cash flow from financing activities	-103	148
Net cash flow	39	53

The cash flow from operating activities in 2018 amounted to €638 million compared with €454 million in 2017. The increase of €184 million compared with 2017 is largely accounted for by a rise in the operating profit, mainly as a consequence of the increase in the regulated tariffs.

The cash outflow from investing activities in 2018 amounted to €496 million, which is a €53 million improvement on 2017. Despite the higher level of investment, the cash outflow was lower. This is largely accounted for by the inward cash flow from the sale of Allego. Third-party contributions to investments in 2018 amounted to €126 million, which is higher than in 2017 (€96 million).

Capital expenditure



2018 2017 Electricity regulated

Gas regulated

Metering devices

Buildings, ICT etc.

Despite a decrease in capital expenditure in gas networks, the level of capital expenditure has risen by €161 million in the past five years, an increase of 28%. This is mainly due to the increased investments in the electricity distribution networks and in smart meters. In recent years, there has also been an increase in the investments in telecommunications networks (both optical fibre networks and mobile data communications). In 2015 and 2016, there was also investment in buildings connected with the renovation of the offices in Duiven and Arnhem, with their sustainable and energy-efficient credentials.

In view of the difference between the cash flow from operating activities and from investing activities (€142 million positive), the dividend payment of €92 million and the increase in cash and cash equivalents of €39 million, no additional financing was drawn down in 2018. The net debt position consequently remained unchanged. The cash flow from financing activities, of €103 million negative, is largely made up of the dividend paid out.

Free cash flow

The free cash flow in 2018 totalled €143 million inward, compared with an outward free cash flow in 2017 of €95 million. The improvement compared with 2017 is mainly explained by the sale of Allego.

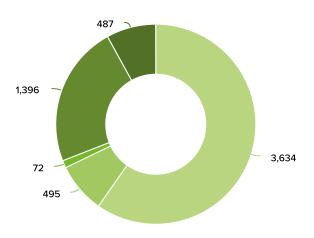
€ million	2018	2017
Cash flow from operating activities	638	454
Cash flow from the disposal of Allego/Sale of HV network	110	7
Investments and divestments in non-current assets	-731	-652
Construction contributions received from third parties	126	96
Free cash flow	143	-95

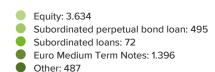
Financial position

Capital structure

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. Alliander capital structure as at year-end 2018 was made up as follows:

Capital structure

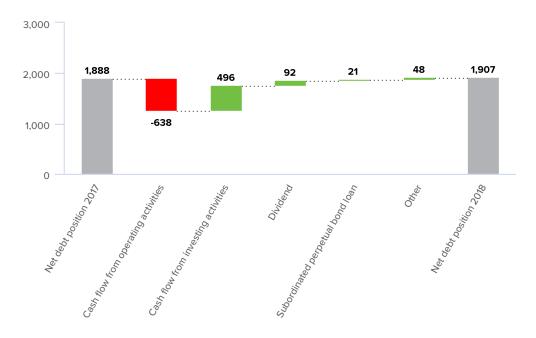




As the capital structure reveals, Alliander is 60% equity-financed. Equity is provided by the shareholders and is increased by the partial retention of the net profit each year. The shareholders receive a percentage of the net profit as dividend each year. Holders of the subordinated perpetual bond loan 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. In addition, Alliander has entered into a loan agreement with the EIB. 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.

The development in the net debt position during the year 2018 is shown below.

Development in net debt position



The net debt position remained reasonably steady and amounts to €1,893 million (31 December 2017: €1,888 million).

Net debt position

Net debt position

€ million	31 December 2018	31 December 2017
Long-term interest-bearing debt	1,475	1,553
Short-term interest-bearing debt	321	231
Finance lease liabilities	159	150
Gross debt	1,955	1,934
Cash and cash equivalents	140	101
Investments held for lease obligations related to cross-border leases	156	193
Total cash and cash equivalents and investments	296	294
Net debt in accordance with the annual financial statements (IFRS)	1,659	1,640
50% of the subordinated perpetual bond loan	248	248
Net debt on the basis of Alliander's financial policy	1,907	1,888

Events after balance sheet date

There have been no events since the balance sheet date.

Our sustainability performance

We made huge advances in our sustainability results in the 2018 reporting period. We saw the effects of our social programmes becoming properly embedded. Now almost at the halfway point, we are on track for achieving climate-neutral operations by 2023. Additionally, we have established a link between our good results in progressing towards a circular economy on the one hand and cost savings on the other hand, with increased reuse of assets leading to lower costs. We are also working with other infrastructure operators towards the achievement of sustainability for the Netherlands. We have made a start with generation from renewables on state-owned land in a way that is appropriate for network operators.

Areas of attention

Our CSR efforts are aimed at three areas of attention:

- We contribute towards the energy transition by giving all customers equal access to renewable energy.
- As a large employer, we take responsibility for a social and inclusive organisation. A socially responsible company
 is an inclusive company where everyone gets a fair chance to reach their full potential. We actively manage
 diversity and inclusiveness in our HR policy, for example, in recruitment and selection, training and development.
- We have climate-neutral and circular operations, including working with partners in our supply chains.

Climate-neutral operations in 2023

Alliander's ambition is to have climate-neutral operations by 2023; in other words, on balance Alliander will have zero CO_2 emissions as a result of our network activities, offices and vehicles in 2023. Our programme on reducing and greening the CO_2 emissions is moving us step by step towards more sustainable operations. High-impact measures were the further advances in our vehicle fleet policy and accelerating greening of our overall footprint.

Alliander had a substantial CO_2 footprint totalling 288 kilotonnes in 2018 although CO_2 emissions fell by 128 kilotonnes during the year compared with the year before, representing a reduction of some 31%. The effect of our greening policy was clear for the third successive year. The net emissions have dropped sharply in recent years, with the greening of our buildings and part of the grid losses as well as the vehicle fleet. The gross emissions were also reduced as a result of the replacement of grey cast-iron gas mains and purchasing green electricity to cover the grid losses.

Emissions from network and leakage losses

94% of our gross emissions are caused by network and leakage losses that arise mainly from the distribution of electricity and gas. Network losses cost us about €49 million in 2018 and can only be mitigated to a limited extent. Nevertheless, we are working to reduce our technical and administrative network losses each year.

Technical network losses

In 2018, technical network losses fell by 1.5% in absolute terms compared with 2017. The technical grid losses are closely connected with the state of the economy, with economic growth resulting in more electricity and gas being carried by the systems and therefore greater grid losses. The reduction programme for technical network losses is being pursued as diligently as ever and focuses on measures for savings at our stations and better day-to-day management of the network. In addition, each year we are replacing grey cast-iron gas pipes at various locations for safety reasons and to reduce gas leakages.

Administrative losses

In absolute terms, our administrative network losses were sharply down compared with 2017. Administrative network losses arise in part from fraud including illegally drawing off energy to grow cannabis. We rely partly on the police and judiciary, with whom we work closely, to give us active and focused assistance in our efforts to fight fraud. The digitisation of our networks is supporting the fight against energy fraud. In 2018, we continued to work on improvements in fraud detection and the collection of unpaid accounts.

Greening network losses with renewable energy

The 'greening' of the energy that has to be bought in to cover 'network losses' (grid losses) is making an important contribution to the reduction in our CO_2 emissions. Alliander is greening its network losses by generating additional renewable energy in the Netherlands. We have made a deliberate decision to shift the purchase of energy to meet our network losses to energy from new investments in renewable sources in the Netherlands. This will allow us to ensure that our network losses are low-carbon and we will be supporting the objective of renewable energy generation in the Netherlands. In 2018, we greened 187 kilotonnes of our total network losses with Guarantees of Origin (GoOs).

Alliander Greening network losses with new GoO contract

In 2018 we authorised the procurement of new GoOs from the Borssele III and Borssele IV wind farms that are currently under development. Wind farm owner Shell Energy Europe Ltd is itself taking 50% of the power generated by Borssele III and IV and is able to offer GoOs from this capacity to Liander and other power distributors. The new 10-year contract will help to make our network losses sustainable. Liander is currently 'greening' approximately 40% of the network losses in this way. The new contract means that a further 11–14% will be greened from 2021 onwards.

Buildings and transport emissions

Our CO_2 emissions from the use of offices and other buildings has remained steady, adjusted for degree days. However, the addition of technical facilities means that the total gas consumption by buildings was up overall. Our CO_2 emissions from buildings rose accordingly compared with 2017. The remaining emissions have been greened. Also, we agreed in 2018 that we would be redeveloping the site we lease on Basisweg in Amsterdam according to our sustainability principles and we have renewed the lease based on those principles.

Despite higher mileages driven, owing to the increase in the amount of ongoing work, our transport-related CO_2 emissions were slightly down, by 4.4%, compared with 2017. That is partly attributable to the fact that we introduced a new 'mobility' programme for commuting to and from work. The travel expenses system was changed so as to encourage carbon-neutral travel. We also tightened up the emissions standards for CO_2 and NOx for company cars, removed diesel vehicles from the fleet and made it easier to drive electric. Those with company cars also get a railcard to encourage the use of public transport.

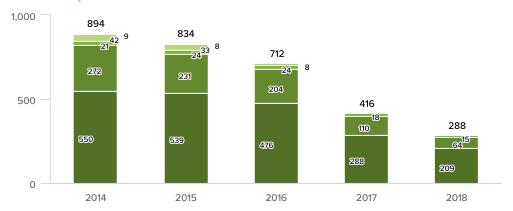
During the year we once again invested in a more efficient vehicle fleet: our vans were fitted with speed limiters (Ecodrive). A particular innovation is the introduction of electric vans for the area in and around Amsterdam, and we aim to add more electric vans to our fleet. We also signed up a new supplier for our fleet of company cars and vans. The contract was awarded partly on the basis of making the vehicle fleet sustainable but such aspects as affordability and freedom of choice were also considerations. One of the requirements with regard to the vans was the ability to transfer the existing interior fittings for reuse in a new vehicle. Anything that cannot be reused will be given a second life or be disposed of responsibly.

Liander using electric vans



Since April 2018, a number of Liander's technicians in and around Amsterdam and Alkmaar have been using electric vans. The vans are fitted out in an efficient manner and have a substantial range. The battery can also be charged up in less than two hours and the technicians can charge them at home, using the charge point that has been installed for that purpose. Liander is leasing the vans as part of the 'More with Less' programme that is aimed at making the vehicle fleet more sustainable. All our vans had previously already been fitted with the intelligent Ecodrive speed limiter, which encourages economic driving. The result is an 11% reduction in our transport-related CO₂ emissions.

Alliander's CO₂ emissions¹



- Energy usage of buildings
- Endinet (until 2016)
- Mobility
- Network losses for accounting purposes
- Network and leakage losses for technical purposes

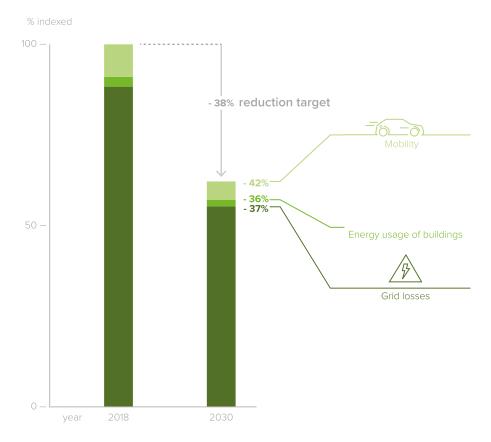
1 For 2018, CO₂ emissions were calculated using a new method, involving a lower coefficient for the electricity we have to buy from EDF and DONG to meet grid losses. Originally, this coefficient was not specifically calculated, an average (trading mix) factor being used instead. The comparative figure for 2017 has been restated using the new method.

The top step on the CO2 performance ladder

Our CO_2 approach and methodology were externally assessed on the basis of the CO_2 performance ladder. Certification on the CO_2 performance ladder provides proof of insight into the company's own footprint (level 1), the possible reduction measures (level 2) and the competence to actually implement these measures (level 3), make insights transparent (level 4) and initiate innovations with supply chain partners (level 5). The CO_2 performance ladder is often used as a tender award criterion. In 2018, we maintained level 5 on the ladder. This means that we know the CO_2 emissions of our A-suppliers, have achieved the level 3 and 4 objectives, and are publicly committed to the government's CO_2 reduction programme. We are proud of this step but to retain our excellent position on the CO_2 performance ladder we must continue mobilising and challenging our suppliers to reduce emissions throughout the supply chain.

Science Based Target

We have recently had it reaffirmed that our CO_2 policy meets the rate of reduction in emissions set out in the Paris Agreement: the so-called Science Based Target (SBT). The SBT is based on achieving the IPCC target of 'well below 2°C' by 2050. This target can be broken down into the maximum CO_2 emissions per sector (agriculture, manufacturing, energy etc.) and into maximum CO_2 emissions per company. This is known as the Sectoral Decarbonisation Approach. For Alliander, this means cutting total CO_2 emissions by approximately 38% by 2030. On the transport front we are lagging slightly behind. Overall, however, we are comfortably on track to meet the SBT, with our policy of becoming climate-neutral by 2023 and with the results achieved so far. The review corroborates the course we have set as a company for our climate-control emissions.



Supply chain partnership: renewables on state-owned land

In the Netherlands, there is still a huge untapped potential for generating electricity from renewables on state-owned land: areas along waterways and motorways, dredging spoil deposit sites, lakes and areas surrounding technical stations. Through our partnership in the Green Networks coalition we have discovered that the combined potential can help the Netherlands to speed up its use of renewables and even double the existing proportion of energy that comes from renewables.

In 2018, the Ministry of Economic Affairs and Climate gave the official go-ahead for the 'Energie op Rijksgronden' project (previously 'Petaplan'), which will involve 10 pilot schemes to explore the available potential. Alliander is a member of the Steering Group for Renewables on State-Owned Land, with the task of looking at things from the network operations angle; it has to be possible to connect the power that is generated to the grid when it comes on stream. Through this work, we are taking a step, in close partnership, towards the careful management of the energy transition.

Alliander is one of the initiators of the Green Networks platform, which is made up of several national infrastructure operators. The Green Networks aim is to achieve a climate-neutral and circular national infrastructure. During the annual Springtij event on the island of Terschelling, the partners in the Green Networks (Alliander, Enexis, Gasunie, ProRail, KPN, Stedin, TenneT and Rijkswaterstaat) signed a mission statement on cooperation on Impact Measurement and Sustainable Development Goals.

Climate risk and adaptation

Alliander is a member of the Delta programme. This is a Dutch government initiative for examining climate change risks at national level and for coordinating the necessary approach. Effects and risks are assessed and action is focused on adaptation and management by our crisis and disasters organisation. Risks to existing and planned assets from such things as floods, wild fires and storms are examined. Attention to the energy transition and sustainable operations policy are focused on actively limiting emissions and on sustainable energy supply.

The greenest substation in the Netherlands



In Groenlo, construction is taking place on the greenest substation in the Netherlands. Alliander signed the associated contract with the contractors in August. The station has several green credentials. The use of natural resources is being minimised by using natural cooling methods and by using recycled materials. Both frame and cladding of the building are of wood, and the roof is covered with solar panels that supply the station's entire energy needs.

Supply chain responsibility with partners

We achieve a considerable part of our CSR performance by working with partners managing the value and product chains where we have impact as a result of our financial expenditure or the existence of specific risks. Our procurement policy is built on Alliander's sustainability pillars: access to clean and affordable energy, climate, raw materials and inclusive employership.

A sustainable relationship with our suppliers

With an annual procurement volume of about \in 900 million, we are a major purchaser of products and services in the Netherlands. Together with our suppliers, we can make a major contribution to sustainability. Sustainable procurement is an integral part of our tender invitation/evaluation criteria. Our outsourcing policy incorporates provisions relating to human rights, working conditions, use of raw materials, recycling and CO_2 emissions. Alliander requires work to be performed in line with safety protocols and standards for working with gas and electricity such as VIAG and BEI. Suppliers' staff must comply with these.

All contracted suppliers of Alliander have committed to the 'Alliander Suppliers Code of Conduct'. This standard is based on OECD guidelines and requires suppliers as well as their suppliers and manufacturers to adhere to ethical and fair business practices. Infringements of the code can lead to the imposition on our part of sanctions such as termination of the contract or temporary suspension of work with or without notice of default.

Nineteen supplier audits carried out

In 2018, a total of 19 audits were carried out into the quality of the products and services supplied. No critical deficiencies in these aspects were reported at our suppliers during the year. Discussion of compliance with the Code of Conduct was part of the audit. Additionally, compliance with supply chain aspects and monitoring of possible discussion points are included in the audit reports. On top of the customary quality and product checks, we look at elements of CSR such as compliance with universal human rights, working conditions, health and safety and the environment. Outsourcing, investment and production in other countries sometimes lead to an increased risk regarding the recognition and observance of fundamental human rights, safety and the environment. An organisation can involuntarily become involved in dubious practices such as child labour. As well as advance checks, we also carry out on-site audits at contract parties. Findings are shared with the supplier. The follow-up is then discussed at regular intervals and will be included in any future audit. In the event of proven negligence or infringements of the agreements, we end the relationship or impose other sanctions in line with the contract and the Alliander Suppliers Code of Conduct. In the event of losses or risks, we communicate with our stakeholders, carry out investigations and institute temporary or permanent measures. We maintain contact on progress with all concerned and keep them informed.

CO₂ measurement in the supply chain

Procurement worked with an outside agency in 2018 on a model enabling CO_2 emissions in the supply chain and on the part of suppliers to be measured as objectively as possible. The insight that this information provides allows us to segmentalise procurement categories on the basis of CO_2 emissions and the potential for Alliander to influence the suppliers. We look at the whole of the supply chain and are able to focus our effort where we can make the biggest impact, such as in the purchase of plotters and printers. By continuing to use the existing printers for longer we save CO_2 emissions in their manufacture and on the costs of procuring new printers.

Circular operations

As a network operator, we use large quantities of materials and, indirectly, of raw materials. We have a responsibility to do the best we can in meeting our materials needs and so we are aiming to make circular purchases of at least 40% of our primary assets by 2020. This means that all raw materials we use are recycled and nothing is wasted. To do this, our management focus is along four lines:

- We make the best possible use of the materials we have.
- Where possible we make circular purchases of our main materials.
- We avoid wasting materials in our operations.
- We recycle 100% of the remaining waste.

Circular procurement demands intensive co-operation with our suppliers. Underlining our commitment to this policy, we became one of the first twenty signatories of the Circular Procurement Green Deal with the aim of learning from each other's experiences when starting up circular procurement processes and to speed up circular purchasing. The more than sixty participants have a great deal of knowledge and experience. Alliander makes a major contribution to these objectives, involving such things as protective clothing, transformers, redeveloping office space, coffee cups, furniture and fair meters.

For a few years now we have been integrating circular procurement into our purchasing processes. Each quarter we report on the percentages of circular procurement and recycling. There is a clear roadmap for achieving our targets. The share of circular procurement at the end of 2018 was about 16.5% thanks mainly to the first resource passports for cables which show that they include recycled materials and can be recycled. In 2018, the first 'circular' cables, containing a percentage of recycled material and themselves fully recyclable, were laid in the Netherlands.

Dilemma: supply chain transparency

Alliander aims to be procuring an ever-increasing proportion of the primary assets on a circular basis by 2020. In 2018, 16.5% of our primary assets involved circular procurement. Last year it became obvious that obtaining an acceptable balance between cost and quality in a transparent, Europe-wide competitive tendering market was not compatible with the goal of using recyclable materials. This dilemma can only be addressed by investments in the recycling chain and Alliander is encouraging suppliers to do just that.

It was also found that information on recycling/reuse is not yet generally available. Production systems largely operate on new raw materials that are mined in low-wage countries under often poor working conditions. The situation is exacerbated by the fact that sourcing recycled material is a problem and the costs are often higher. Alliander is pushing for greater transparency regarding the origin of materials and their recycling.

Making the best use of what already exists: reuse

In 2018 we successfully implemented our Reuse programme. For instance, 208 existing transformers were dismantled and 192 of them were reinstalled elsewhere. We are also engaged in keeping better records of our 'grey inventories' (returned and unused materials), checking them for quality and making them available on an internal marketplace. Top-notch network operation means making efficient use of materials and generally adopting the principles of the circular economy. All infrastructure operators are seeking ways of minimising waste.

Fair meters installed

2018 saw the conclusion of an extended R&D period with the actual delivery of a smart meter boasting, among other things, a raw materials passport, 35% less metal, 25% less plastic and part use of recycled plastic. Insofar as we are able to monitor the supply chain, the use of minerals from conflict zones has been excluded. One of the two suppliers, Iskraemeco, was awarded a sustainable innovation prize in its home country (Slovenia) for its efforts in producing the 'fair meters' in 2018.

Raw materials passport

The existence of raw materials passports gives us a good idea of the origins of 33% of our procurement. Within the Green Networks coalition, the coalition members share their experiences with raw materials passports. The intention is to make the raw materials passport a standard part of every purchase enquiry from 2020 onwards.

Making sustainable agreements with suppliers is possible

Sustainable agreements with suppliers are possible: we successfully concluded an eight-year agreement for the supply of power transformers, for instance, in which previously used oil is reused. We have also drawn up a plan of approach with the suppliers for working with them in the years ahead on further sustainability improvements to the transformer. The power distribution losses attributable to these new transformers are around 10% lower than those of our existing transformers. Based on the current order volume and the load on the transformers, this translates into an appreciable reduction in CO_2 emissions and a cost saving of CO_2 million over a useful life of 40 years.

Recent RFPs for low-voltage and medium-voltage cables placed extra emphasis on the development of a 'circular' cable, and the suppliers have responded to that in their designs.

Impact case study: the impact of reuse of transformers in our power distribution networks

In this case study we explored what the financial and physical impact would be if we reused existing components of our distribution systems instead of using entirely new transformers. This was found to have benefits, although using previously used components did result in greater network losses.

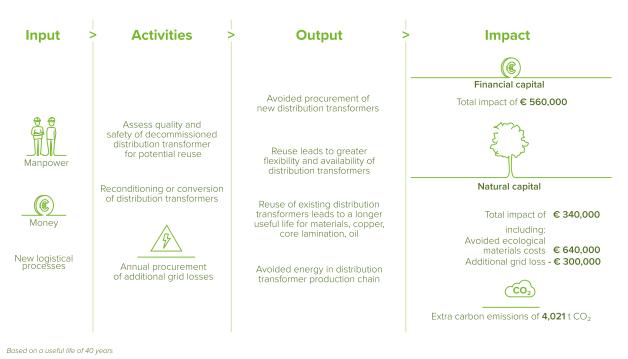
The aim of the reuse programme is to make optimum use of the existing value in our system components. Our power distribution networks are made up of a multitude of components. Transformers are used to deliver power at the desired voltage. As network operator, we guarantee that the mains voltage remains within agreed limits at all times. Transformers generally have a long life, of 40 years on average. Transformers are removed from the system in connection with new projects, periodical maintenance or work on the system to accommodate third-party needs. Our engineers check them in, test them and assess numerous aspects of their condition. In conjunction with suppliers we ensure that the transformers are ready to be deployed elsewhere in the system again. Quality and safety are paramount. Through active management aimed at extending the useful life, transformers can be installed again, under certain conditions, even beyond their planned lifespan.

Reuse programme

The reuse programme covers several different types of distribution system component. This allows us to build up experience with process management and practices that are necessary in order to prolong useful life. The activities concerned are then turned into standard processes. Part of the programme involved calculating the impact of using distribution transformers of various ages compared with using entirely new distribution transformers.

The case study involved calculating the impact on financial and natural capital of reusing distribution transformers. The transformers predating 1970 are not being reused as part of the programme. The average age of the transformers at the time of reuse was 24 years. For the purpose of the case study, the impacts were calculated over a period of 40 years, discounted to net present value.

The impact on financial capital is a saving of €563,000. In other words, it pays to avoid investing in new transformers even after the costs of reusing them such as maintenance and the logistics involved. The shorter lead time when transformers are reused also has operational benefits. The calculated impact on natural capital is also beneficial, with a saving totalling €338,000. Not building new transformers reduces ecological damage in the production chain. The ecological costs of copper, core lamination material and oil that are saved amount to €639,000. However, reusing transformers means reduced efficiency compared with new transformers, resulting in greater power losses over the service life. These network losses in turn have a downside impact of 4,500 tonnes of CO_2 . On the other hand, Alliander 'greened' 40% of its network losses in 2018, and this compensates to some extent for the adverse effect. Reuse does, however, also deliver a saving in ecological costs equal to 500 tonnes of CO_2 in the new transformer production chain. Overall, therefore, there is a beneficial impact on natural capital in that avoiding the use of materials and natural resources avoids the ecological costs otherwise incurred.



What have we learned?

Alliander always aims to perform its duties and activities to the best of its ability. That said, certain incidents, developments and events can still have unforeseen consequences. We want to learn from these experiences so we can continue to enhance the quality of our organisation. In this section, we present some key moments and events in 2018.

Major outage in Amsterdam

What happened?

On 9 March 2018, the centre of Amsterdam was struck by a major power outage when a cable was accidentally cut, causing a short circuit and leading to substantial damage to the Frederiksplein distribution substation. A bystander sustained burns, and the highly complex, large-scale outage left 28,000 customers without power for a long time.

What have we learned?

As soon as the outage was over, we launched a detailed investigation into its causes. We can learn from the findings of this investigation, which will help us prevent this situation from reoccurring. The findings will also help improve safety for our employees and customers. The cause of the outage turned out to be a safety system that was not working properly. If a live cable is cut, this causes a short circuit. In such situations, the cable is normally switched off by a safety system within a few seconds, but this did not happen in Amsterdam due to a defective fuse. We introduced measures in response to this outage. A system that constantly monitors the safety systems has been installed in nearly all of the 250 stations in our service area, enabling us to prevent similar incidents. This system still needs to be installed in a small number of stations, and we expect that this will happen by the end of March 2019. Until that time, technical specialists from Liander will continue to check the safety systems on a regular basis.

Waiting for gas and electricity in Heiloo

What happened?

In 2018, 80 new-build homes in Heiloo had to wait longer than agreed for their connections to mains services, including gas and electricity. Here, the delay was attributable to the shortage of technicians as well as a combination of circumstances. Among other things, work was affected by plummeting temperatures at the start of the year. The contractor was supposed to start building the infrastructure in June, but was unable to do so because scaffolding made part of the route inaccessible. Moreover, some of the apartments were not watertight or windproof at the time of completion. This meant that the task had to be rescheduled, and the contractor's earliest start date was the end of September.

What have we learned?

We held a frank discussion with the parties involved, including the builder. It appears that we could have made a start on various activities if there had been more effective communication. It is therefore crucial that we sit down with each other to look at the details and maintain an ongoing dialogue. The sooner we know what customers such as municipalities and contractors are intending to do, the better we are able to make plans and combine work.

Rise of solar fields needs to be planned

What happened?

The energy supply is well on its way to becoming more sustainable. There is currently an upsurge in plans for new solar fields, thanks to the fall in the price of solar panels and the favourable climate as far as subsidies are concerned. Many developers are moving to sparsely populated areas where land is inexpensive. These are also the least dense areas of the electricity grid. Feeding much larger amounts of electricity into the network will require significant network upgrades. The rate at which electricity grid can be expanded is not fast enough to keep up with rising demand for new connections for solar parks. As a consequence, there are now some places where the network is full and needs to be expanded first.

What have we learned?

Laying cables and building or expanding transformer stations often takes years. This is due to such factors as permit procedures, consultation exercises and a shortage of technicians able to carry out the work. First and foremost, more government direction is required. Thanks to the planning at a provincial level, we already know at an early stage where wind farms will be located, which means we can prepare our network upgrades in good time. At the moment, there is no planning process of this kind for large-scale solar fields. In the context of solar parks, too, reaching proper agreement at an early stage with all parties involved is important and government direction is advisable. We are also calling for this at Alliander.

Statement by the Management Board

In Control Statement

As the Management Board, we are responsible for the adequate design and effectiveness of our risk management and control system. In 2018, 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 outcomes of this evaluation were periodically discussed with the Supervisory Board.

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 Board of Management is of the opinion that the report provides sufficient insights into any failings in the effectiveness of Alliander's internal risk management and control system. The aforementioned system provides reasonable assurance that the financial reporting does not contain any material misstatements. Moreover, the Board of Management is of the opinion that, based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis and the report states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of the report.

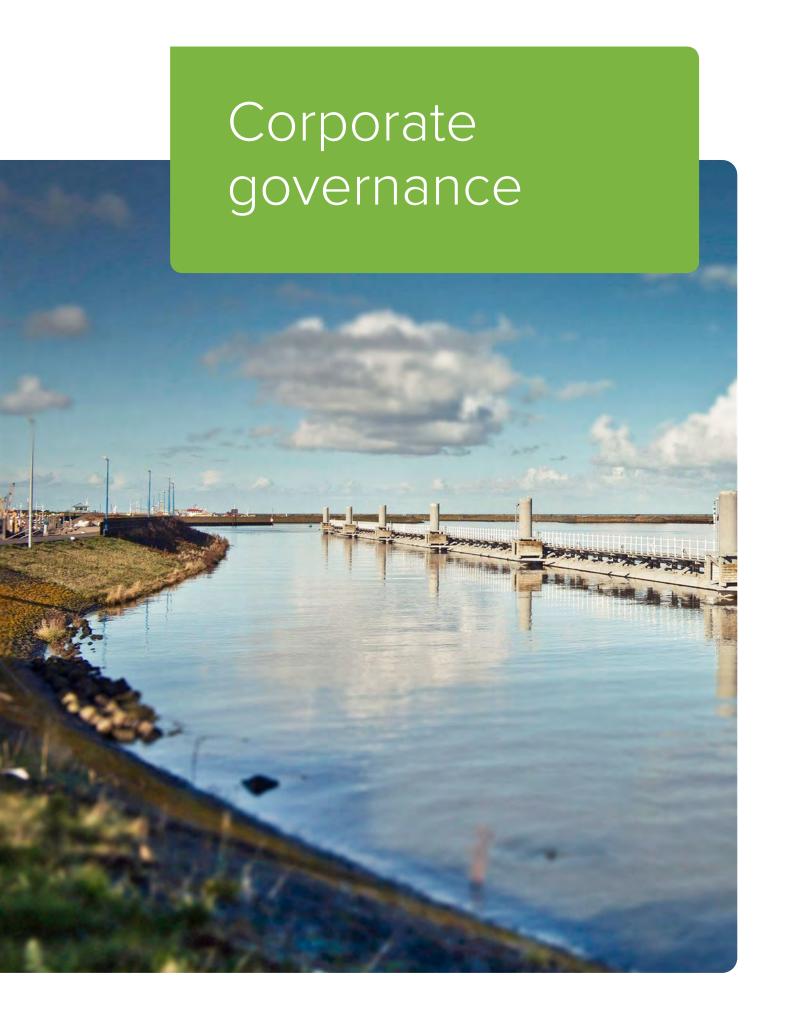
Statement of Responsibility by the Management Board

We state that:

- the financial statements provide a true and fair view of the assets, liabilities, financial position and profit of Alliander N.V. and its consolidated companies;
- 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 2018 and of the business during the 2018 financial year of
 Alliander N.V. and its group companies, the results of which are included in the financial statements; and
- the key risks to which Alliander N.V. is exposed are described in the annual report.

Arnhem, the Netherlands, 15 February 2019

Ingrid Thijssen, CEO Mark van Lieshout, CFO



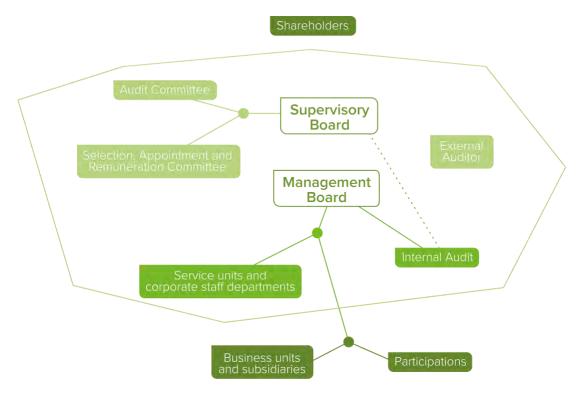
Corporate governance

Governance is about management and control, about responsibility and influence, and about supervision and accountability. Alongside the Management Board, the Supervisory Board and the shareholders, the internal audit function and external auditor play a key role in corporate governance as well.

Alliander voluntarily applies the Dutch Corporate Governance Code 2016 ("the Code") where possible and relevant. We are not obliged to do this as the shares of Alliander are not listed on the stock exchange. Nevertheless, as a large company with a key role in society, we see it as our duty to report transparently on how we manage and supervise our company.

Corporate governance structure in outline

Alliander is a company with full statutory two-tier status. All shares are held by Dutch provinces and municipalities. Alliander N.V. has a two-tier board structure in which management and supervision are divided between two corporate bodies, i.e. the Management Board and the Supervisory Board The two boards act independently of each other. They are accountable for the performance of their duties to the General Meeting of Shareholders.



The corporate governance of Alliander is based on Book 2 of the Dutch Civil Code, the Code, the company's Articles of Association and various sets of internal rules and by-laws. The Dutch Gas Act and the Electricity Act 1998 also contain various provisions that influence the governance of Alliander and its affiliated enterprises. In addition, based on its core values, Alliander has formalised a number of key rules of behaviour and requirements in a code of conduct (including the Guideline for the Prevention of Market Abuse) and a whistleblower policy.

The Articles of Association, various sets of rules and by-laws and other corporate governance documentation have been posted on the Alliander website. The website also offers a complete summary of Alliander's standpoints relating to all principles and best practices from the Code (the 'comply or explain' summary).

Management Board

Duties and responsibilities

The Management Board is tasked with the management of Alliander. The Management Board's responsibilities include:

- the achievement of the objectives of Alliander and its affiliated enterprises
- strategy and related risk profile
- developments in results
- the social aspects of entrepreneurship that are relevant to the organisation
- the continuity of Alliander and its affiliated enterprises

In the performance of its duties, the Management Board is led by the interests of Alliander and the enterprises that are affiliated with Alliander. More specifically, the Management Board looks at the value that Alliander and the affiliated enterprises have in the long term. In so doing, the Management Board carefully weighs up the interests of the customers, the shareholders, the employees, the providers of capital, society and other stakeholders of Alliander.

The Management Board is collectively responsible for the management of Alliander in principle. That said, the different duties have been divided among the individual members of the Management Board. This division of duties has been approved by the Supervisory Board.

By-laws

The Management Board must adhere to the by-laws of the Management Board. These by-laws have been approved by the Supervisory Board and supplement all statutory provisions and Articles of Association. The by-laws set out provisions on the composition, duties, powers and procedures of the Management Board. They also contain rules regarding the relations with the external auditor, the Supervisory Board and the shareholders. In addition, the by-laws contain rules for dealing with an actual or possible conflict of interests and for other positions of the members of the Management Board.

Appointment and dismissal

The members of the Management Board are appointed by the Supervisory Board for an indefinite period. The Supervisory Board has drawn up a diversity policy for the composition of the Management Board. The Supervisory Board notifies the Committee of Shareholders of a proposed appointment. The Supervisory Board also has the power to suspend or dismiss members of the Management Board. The Supervisory Board will not dismiss a member of the Management Board before hearing the Committee of Shareholders.

Supervisory Board

Duties and responsibilities

The Supervisory Board supervises the policy pursued by the Management Board. It also supervises the operations of Alliander and the affiliated enterprises in general. Furthermore, the Supervisory Board fulfils the role of adviser and employer of the Management Board. The Supervisory Board of Alliander also acts as the Supervisory Board of network operator Liander N.V.

The supervision of the Supervisory Board encompasses various aspects of the policy pursued by the Management Board, including:

- long-term value creation
- the activities of the Management Board in relation to the corporate culture
- the effectiveness of the internal risk management and control systems
- the integrity and quality of the financial reporting
- compliance with laws and regulations
- interaction with the shareholders

In the performance of its duties, the Supervisory Board – like the Management Board – is led by the interests of Alliander and the affiliated enterprises and carefully weighs up the interests of the stakeholders. The Supervisory Board also gives due consideration to the social aspects of entrepreneurship that are relevant to the organisation.

The Supervisory Board fulfils its supervisory duties as a collegiate body with collective responsibility.

Bv-laws

In addition to the statutory regulations and the relevant provisions in the Articles of Association, the Supervisory Board also has by-laws to ensure its effective operation. These by-laws provide for such aspects as its composition, committees, duties and powers, meetings and decision-making. In addition, they set out rules regarding its interaction with the shareholders and the Works Council. The by-laws also contain rules for dealing with an actual or possible conflict of interests and for other positions held by the members of the Supervisory Board.

Appointment and dismissal

The General Meeting of Shareholders appoints the members of the Supervisory Board. This takes place upon the nomination of the Supervisory Board, with due regard to the profile drawn up by the Supervisory Board. The profile takes account of the nature and activities of the company and the required expertise and background of the Supervisory Board members. The General Meeting of Shareholders and the Works Council can recommend nominee Supervisory Board members. The Supervisory Board nominates one-third of the Supervisory Board members on the recommendation of the Works Council ('enhanced right of recommendation'), unless the Supervisory Board objects to this recommendation giving reasons. The Committee of Shareholders also has an enhanced right of recommendation for the nomination of one-third of the Supervisory Board members.

A Supervisory Board member is appointed for a period of four years, after which he or she can be reappointed for a further four-year period. Thereafter, reappointment for a two-year period is possible, with a possible extension of no more than two years. Reappointment after a period of eight years must be reported and explained in the report of the Supervisory Board. The Supervisory Board may suspend any one of its members, but the Enterprise Section of the Amsterdam Court of Appeal is the only competent party to dismiss a Supervisory Board member. In addition, the General Meeting of Shareholders can withdraw its confidence from the full Supervisory Board, leading to the immediate dismissal of the members of the Supervisory Board. The Enterprise Section must be given an opportunity to form an opinion before this withdrawal of confidence takes place.

Supervisory Board Committees

The Supervisory Board has appointed two committees from among its members, i.e. an Audit Committee and a combined Selection, Appointment and Remuneration Committee. These committees prepare the decision-making of the Supervisory Board and thus contribute towards effective decision-making. The Supervisory Board remains collectively responsible for the decisions prepared by a committee. Each committee has its own by-laws setting out the role and responsibility of the committee, its composition and how the committee fulfils its tasks.

Audit Committee

The duties of the Audit Committee include:

- supervising the integrity and quality of the financial reporting of Alliander
- supervising the effectiveness of the internal risk management and control systems, including supervision of compliance with the relevant laws and regulations, and the effectiveness of codes of conduct
- supervising the relationship with and the follow-up of recommendations and comments made by the internal auditor and the external auditor
- nominating, appointing or reappointing, or removing the external auditor
- supervising the role and effectiveness of the internal audit function
- supervising the financing policy and financing of Alliander
- supervising the risk management system in relation to the application of information and communication technology by Alliander, including risks in the field of cybersecurity
- supervising the tax policy of Alliander

The chair of the Audit Committee is the first point of contact for the external auditor to report any actual or suspected irregularities in the financial reporting of Alliander.

Selection, Appointment and Remuneration Committee

The duties of the Selection, Appointment and Remuneration Committee include:

- defining the remuneration policy to be pursued for the Management Board and the remuneration of the individual members of the Management Board
- selecting and appointing/reappointing members of the Management Board and the Supervisory Board
- appraising from time to time the performance of individual Management Board and Supervisory Board members
- formulating succession plans for the Management Board and the Supervisory Board
- preparing the Remuneration Report, in which Alliander accounts for its remuneration policy

General Meeting of Shareholders

Alliander organises a General Meeting of Shareholders within five months after the end of the financial year. The Management Board and the Supervisory Board provide the General Meeting of Shareholders with adequate information and clarification. The agenda of the General Meeting of Shareholders sets out which items are up for discussion and which items are to be voted on. The agenda includes the following items where as relevant:

- discussion of the annual report
- clarification of the company's policy on additions to the reserves and on dividends (level and purpose of additions to the reserves, amount and type of the dividend)
- external auditor's clarification of the audit opinion
- adoption of the financial statements and the dividend
- approval of the management conducted by the Management Board (discharge of the Management Board members from liability)
- approval of the supervision exercised by the Supervisory Board (discharge of the Supervisory Board from liability)
- appointment of members of the Supervisory Board
- discussion of each substantial change in the corporate governance structure of the company and in the compliance with the Code
- approval of material changes in the Articles of Association
- appointment or reappointment of the external auditor

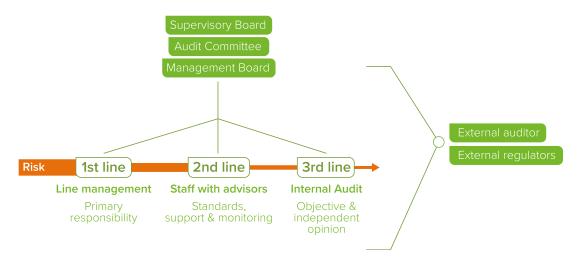
All resolutions are passed on the basis of the 'one share, one vote' principle. Resolutions are adopted by an absolute majority of votes, unless the law or the company's Articles of Association prescribe a larger majority. Extra meetings are held if the Supervisory Board or the Management Board considers 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.

Alliander is committed to having as many shareholders as possible take part in the decision-making in the General Meeting of Shareholders. That is why the Management Board is delighted with the good attendance during the shareholder meetings of the past years.

Risk management

Risk management is the deliberate handling of uncertainties that can have a negative impact on the achievement of the strategy as adopted by the Management Board. An effective risk management and internal control system is therefore important. The Management Board endorses the significance of effective risk management. The risk management and internal control system is updated in line with internal and external developments. We apply the 'three lines of defence' model for risk management purposes. Each line of defence has its own responsibility in the management and control process:

- The first line is primarily responsible for the identification, management and monitoring of the risks within its processes and for an effective risk management and control system.
- The second line supports, advises, coordinates and sets frameworks to ensure that the management genuinely takes responsibility. It thus provides additional assurance within Alliander.
- The third line provides additional assurance about the question whether the first and second lines can jointly
 manage the risks, so that the organisational objectives are achieved. They give an objective and independent
 opinion on this matter, including suggestions for possible improvements. The third line operates objectively and
 independently from all other parts of the organisation.



In addition, various other controls are in place to manage our risks, such as the Planning & Control Cycle, the Risk Management Framework, the Business Control Framework and the Alliander Accounting Manual. These control are discussed in other parts of this report. Management responsibility for supervising the quality of the management of our top risks also consists of three layers.

- Alliander Resilience Committee. This Committee has the CFO as chairman, issues recommendations to the
 Management Board on privacy & security, compliance, risk acceptance, risk profile, external risk reporting
 requirements, exceptions of a temporary nature or events that diverge from the applicable risk policy and
 acceptance. The committee discusses internal and external risk reports, and monitors and advises on the followup on internal and external audits. Finally, it also promotes the embedding of risk management and internal
 control processes within the business units and chains of Alliander.
- Management Board. The Management Board plays a proactive role in managing attitudes and behaviours
 regarding risk management and internal control. Every six months, the portfolio of top risks is discussed by the
 Management Board and the discussion of specific risks is frequently on the agenda. If necessary, the
 Management Board initiates 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 key stakeholders. The principal risks are set out in this annual report under Risks.
- Supervisory Board. The Supervisory Board supervises the design and effectiveness of the risk management and
 control system. The portfolio of principal risks is discussed in the Audit Committee every six months. A summary of
 the discussion 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 being introduced.

Internal audit function

Within Alliander, the Internal Audit Department performs the internal audit function. Internal Audit has an independent, objective role that provides assurance and performs advisory engagements in order to deliver added value and improve the operational activities of Alliander. The department supports Alliander in achieving its corporate objectives through the systematic evaluation and improvement of the effectiveness of the risk management, control and governance processes.

Every year, Internal Audit draws up an audit plan based on risk reports and the audit findings in consultation with the Management Board, the Audit Committee and the external auditor. This plan describes the proposed audit engagements for the coming year. In addition, the plan devotes attention to the interaction with the external auditor. The audit plan is submitted to the Management Board and then to the Supervisory Board for approval. Internal Audit reports the audit results to the Management Board and the essence of its audit findings to the Audit Committee and informs the external auditor. The audit findings will address, as a minimum:

- flaws in the effectiveness of the internal risk management and control systems
- any findings and observations with a material impact on the risk profile of Alliander and its affiliated enterprises
- any failings in the follow-up on recommendations of the internal audit function

Internal Audit is an independent corporate support department operating under the responsibility of the Management Board. The Internal Audit Manager reports to the chairman of the Management Board and also has direct access to the Audit Committee and the external auditor and attends meetings of the Audit Committee. The Management Board appoints and removes the internal auditor in charge. Both the appointment and the removal of the internal auditor in charge is submitted to the Supervisory Board for approval, together with a recommendation from the Audit Committee.

External auditor

The external auditor is appointed by the General Meeting of Shareholders upon the nomination of the Supervisory Board. Deloitte Accountants B.V. has been the external auditor of Alliander and its affiliated enterprises since the 2016 financial year. The external auditor audits the financial statements and reports the findings of the annual audit to the Management Board and the Supervisory Board. The conclusion from the findings is set out in a report. The General Meeting of Shareholders can ask the auditor questions about the findings. The auditor attends the General Meeting of Shareholders for this purpose. He is authorised to speak at this meeting.

The Audit Committee reports annually to the Supervisory Board on the performance of, and relationship with, the external auditor. The Management Board gives the Audit Committee, and by extension the Supervisory Board, an opportunity to examine the most important points of discussion arising between the external auditor and the Management Board based on the draft management letter or the draft board report.

The external auditor attends the meetings of the Supervisory Board in which the external auditors' report on the audit of the financial statements is discussed. The auditor also attends the meeting of the Supervisory Board in which the half-year figures are discussed. The external auditor attends the meetings of the Audit Committee, unless the Audit Committee decides otherwise. The external auditor immediately informs the chairman of the Audit Committee of an actual or suspected abuse or irregularity that is uncovered during the audit. If this actual or suspected abuse or irregularity concerns a member of the Management Board, the external auditor reports this to the chairman of the Supervisory Board.

Compliance with the Code

The Management Board and the Supervisory Board are jointly responsible for corporate governance at Alliander and for compliance with the Code. The Code is based on the 'comply or explain' principle, meaning that there is scope to depart from principles and best practice provisions. The Management Board and the Supervisory Board render account for complying with the Code to the General Meeting of Shareholders and provide a substantive and transparent explanation for any departures from the Code.

Provisions not applicable to Alliander

A number of best practice provisions do not apply, the reasons being that Alliander is a company with full two-tier status and that the shares of Alliander can exclusively be held by Dutch government bodies (lower or otherwise) and are not listed on a stock exchange. In addition, our Articles of Association stipulate specific requirements concerning shareholder quality and Alliander is not protected by any anti-takeover measures. Moreover, the best practice provisions relating to share-based payment, issuance of depositary receipts for shares, financing preference shares and institutional investors do not apply.

Based on the above, the following best practice provisions did not apply to Alliander in 2018:

- 2.8.2 (informing the Supervisory Board about requests for inspection by competing bidder): Alliander shares are not listed on a stock exchange.
- 2.8.3 (management board's position on a private bid): Alliander shares are not listed on a stock exchange.
- 3.3.3 (share ownership): under the Articles of Association of Alliander, shareholders must meet specific quality requirements to be eligible for share ownership. These are known as the quality requirements. Based on these quality requirements, shares can only be held, directly or indirectly, by the State, a province or a municipality.
- 3.4.2 (agreement of management board member): at Alliander, management board members are appointed by the Supervisory Board. The Supervisory Board notifies the General Meeting of Shareholders or the Committee of Shareholders of a proposed appointment. The salary components of the management board members are transparently reported and published in the Remuneration Report.

- 4.2.5 (management board contacts with press and analysts): Alliander shares are not listed on a stock exchange.
- 4.2.6 (outline of anti-takeover measures): Alliander is not protected by any anti-takeover measures.
- 4.3.3 (cancelling the binding nature of a nomination or dismissal): Alliander is a two-tier company.
- 4.3.4 (voting right on financing preference shares): Alliander has not issued any financing preference shares.
- 4.3.5 (publication of institutional investors' voting policy): Alliander has no institutional investors as shareholders as referred to in the Code.
- 4.3.6 (report on the implementation of institutional investors' voting policy): Alliander has no institutional investors as shareholders as referred to in the Code.
- 4.4.1 to 4.4.8 (issuing depositary receipts for shares): no depositary receipts have been issued for Alliander shares.
- 5.1.1. to 5.1.5 (one-tier governance structure): Alliander has a two-tier governance structure.

Departures from/qualifications of the Code

The vast majority of provisions are adhered to where applicable. 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 full.

2.1.7 Independence of the Supervisory Board The composition of the Supervisory Board address to the principle that all its members should be Board is such that the members are able to operate independently and critically visa-ivis one another, the Management Board and any particular interests involved. In

Board is such that the members are able to operate independently and critically visà-vis one another, the Management Board and any particular interests involved. In order to safeguard its independence, the Supervisory Board is composed in accordance with the following criteria: i. any one of the criteria referred to in best practice provision 2.1.8, sections i. to v. inclusive should be applicable to no more than one Supervisory Board member; ii. the total number of Supervisory Board members to whom the criteria referred to in best practice provision 2.1.8 are applicable should account for less than half of the total number of Supervisory Board members; iii. for each shareholder, or group of affiliated shareholders, who directly or indirectly hold more than ten percent of the shares in the company, there is no more than one Supervisory Board member who can be considered to be affiliated with or representing them as stipulated in best practice provision 2.1.8, sections vi. and vii.

2.2.1 Appointment and reappointment periods – Management Board members A Management Board member is appointed for a maximum period of four years. A member can be reappointed for a term of up to four years at a time, which reappointment should be prepared in a timely fashion. The diversity objectives from best practice provision 2.1.5 should be considered in the preparation of the appointment or reappointment.

Members of the Management Board are appointed for an indefinite period. As the members of the Management Board act from a strategic long-term perspective, a limited appointment period would not be appropriate.

2.3.2 Establishment of committees

If the Supervisory Board consists of more than four members, it should appoint from among its members an audit committee, a remuneration committee and a selection and appointment committee. Without prejudice to the joint responsibility of the Supervisory Board, the duty of these committees is to prepare the decision-making of the Supervisory Board. If the Supervisory Board decides not to establish an audit committee, a remuneration committee or a selection and appointment committee, the best practice provisions applicable to such committee/committees should apply to the entire Supervisory Board.

Alliander has set up an Audit Committee. As their tasks are closely related, the Remuneration Committee and the Selection and Appointment Committee have, for practical reasons, been combined in the Selection, Appointment and Remuneration Committee.

2.3.4 Composition of committees The Audit Committee or the Remuneration Committee will not be chaired by the chairman of the Supervisory Board or by a former member of the Management Board of the company. More than half of the members of the committees are independent within the meaning of best practice provision 2.1.8.

 $\ensuremath{\mathsf{All}}$ members of the Supervisory Board and hence of of the committees are independent.

2.3.7 Vice-chairman of the Supervisory Board

The vice-chairman of the supervisory board will deputise for the chairman when the occasion arises.

The Supervisory Board has decided not to appoint a vice-chairman. The meetings of the Supervisory Board are led by the chair or, in her absence, by one of the other members of the Supervisory Board who is designated for this role by majority vote by the members of the Supervisory Board who are present or represented at the meeting.

2.4.3 Point of contact for the performance of Supervisory Board and Management Board members

The chairman of the Supervisory Board will act on behalf of the Supervisory Board as the main point of contact for the Management Board, Supervisory Board members and shareholders regarding the performance of Management Board members and Supervisory Board members. The vice-chairman will act as the point of contact for individual Supervisory Board members and Management Board members regarding the performance of the chair.

No vice-chair has been appointed within the Supervisory Board. Each individual Supervisory Board member acts as a point of contact for individual members of the Supervisory Board and Management Board regarding the performance of the chair.

3.1.2 Remuneration policy

The following aspects should in any event be taken into consideration when formulating the remuneration policy: i. the objectives for the strategy for the implementation of long-term value creation within the meaning of best practice provision 1.1.1; ii. the scenario analyses carried out in advance; iii. the pay ratios within

As the Management Board is not awarded any form of variable remuneration, analyses of possible outcomes of the variable remuneration components are not relevant. As Alliander shares are not listed on a stock exchange, there is no market price for the shares, nor can this be taken into account in the considerations by the Supervisory Board. In addition, the Articles of Association of Alliander contain

the company and its business; iv. developments in the market price of the shares; v. an appropriate ratio between the variable and fixed remuneration components. The variable remuneration component is linked to measurable performance criteria determined in advance, which are predominantly long-term in character; vi. if shares are being awarded, the terms and conditions governing this award. Shares will be held for at least five years after they have been awarded; and vii. if share options are being awarded, the terms and conditions governing this award and the terms and conditions subject to which the share options can be exercised. Share options cannot be exercised during the first three years after they have been awarded.

specific quality requirements that shareholders must meet to obtain shares. Based on these quality requirements, shares can only be held, directly or indirectly, by the State, a province or a municipality.

3.2.3 Severance pay

The remuneration in the event of dismissal will not exceed one year's salary (the "fixed" remuneration component). Severance pay will not be awarded if the employment contract is terminated early at the initiative of the Management Board member, or in the event of seriously culpable or negligent behaviour on the part of the Management Board member.

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.

3.4.1 Remuneration report

The Remuneration Committee will prepare the remuneration report. This report will in any event describe, in a transparent manner, in addition to the matters required by law: i. how the remuneration policy has been implemented in the past financial year; ii. how the implementation of the remuneration policy contributes to long-term value creation; iii. that scenario analyses have been taken into consideration; iv. the pay ratios within the company and its affiliated enterprise and, if applicable, any changes in these ratios in comparison with the previous financial year; v. in the event that a Management Board member receives variable remuneration, how this remuneration contributes to long-term value creation, the measurable performance criteria determined in advance upon which the variable remuneration depends, and the relationship between the remuneration and performance; and vi. in the event that a current or former Management Board member receives severance pay, the reason for this payment.

The Management Board does not participate in any variable remuneration scheme.

4.1.10 Report on General Meeting of Shareholders The report on the General Meeting will be made available, on request, to the shareholders no later than three months after the meeting, following which shareholders will have the opportunity to respond to the report in the following three months. The report will then be adopted in the manner provided for in the Articles of Association.

Alliander will send the report proactively to all shareholders within three months of the General Meeting.

4.2.3 Meetings and presentations Analyst meetings, analyst presentations, presentations to institutional or other investors and press conferences will be announced in advance on the company's website and by means of press releases. Analysts' meetings and presentations to investors will not take place just before the publication of the regular financial information. All shareholders will be able to follow these meetings and presentations in real time, by means of webcasting, telephone or otherwise. After the meetings, the presentations will be posted on the company's website.

Alliander shares are not listed on a stock exchange, but Alliander has issued five stock exchange-listed bonds. Alliander communicates in a transparent manner that is tailored to the target group. To illustrate, Alliander organises meetings with bond investors, institutional investors and shareholders after publication of the half-year and annual figures. Investor Relations gives advance notice of these meetings by email. Alliander also organises a press conference after the publication of its half-year and annual figures. These are announced in advance via the website. In addition, Alliander organises annual (and, if necessary, ad hoc) one-to-ones with rating agencies after the publication of the annual figures. Alliander subscribes to the principle of simultaneous provision of information to all shareholders but, in view of the disproportionate costs of using resources such as webcasting and special telephone lines, finds it too costly to give all shareholders an opportunity to simultaneously attend the meetings and presentations mentioned in the best practice provision. Alliander does ensure, however, that presentations are posted on its website after the meetings.

4.3 Casting votes

Participation of as many shareholders as possible in the general meeting's decisionmaking is in the interest of the company's checks and balances. The company will, in so far as possible, give shareholders the opportunity to vote by proxy and to communicate with all other shareholders.

The shareholders of Alliander are not given an opportunity to vote remotely or to communicate with all other shareholders. Historically, there is little need for this, in view of the high attendance at the General Meeting of Shareholders (on average more than 80% of the issued capital is represented at the meeting). In addition, proxy voting forms are enclosed in the convocation to the meeting.

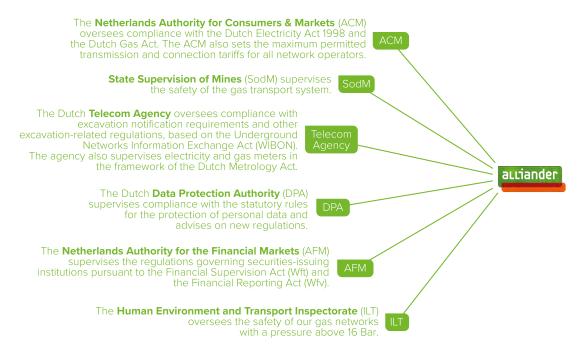
Corporate governance statement

This is a statement about corporate governance as referred to in the Decree on the content of the Management Board Report of 1 January 2018. The information that is required to be included in this Corporate Governance Statement pursuant to Article 3a(a) and (d) of the Decree can be found in the chapters, sections and pages of this Report of the Management Board for 2018 and should be considered as inserted and reiterated here:

- the main features of the internal risk management and control system relating to the financial reporting process of the Alliander Group (Article 3a(a) of the Decree on the content of the Management Board Report) are set out in the Risks section
- the diversity policy relating to the composition of the Management Board and the Supervisory Board stating the
 objectives of the policy, the method of implementation and the results of this policy in the past financial year
 (Article 3a(d) of the Decree on the content of the Management Board Report) is set out in the Report of the
 Supervisory Board

Other regulators

External organisations supervise Liander in its capacity as a network operator that is active in a regulated environment. They supervise such aspects as compliance with specific legislation and regulations.



Integrity

Alliander sees integrity as a key aspect of its corporate culture, which is why various arrangements have been put in place to safeguard integrity within its organisation.

Codes of conduct

Companies with strong standards and values are more successful in the long term than companies that are less ethically conscious. The way in which we conduct ourselves in our day-to-day work therefore largely determines how successful we are in achieving our objectives. The Alliander Code of Conduct sets out how we are expected to deal with each other, our business partners, company and personal interests, business assets, confidential and non-confidential information and safety. In this way, we protect customers, associates and the reputation of Alliander, and jointly safeguard a pleasant and safe working environment. Failure to adhere to the code can have serious consequences and may even lead to dismissal.

The Management Board monitors the effectiveness of, and compliance with, the Alliander Code of Conduct. Every six months, the Management Board informs the Audit Committee of the Supervisory Board of its findings and observations in relation to the effectiveness and compliance. These reports are based on investigations into suspicions of violation of the Alliander Code of Conduct. The Internal Audit Department acts as a Fraud Disclosure Desk and has specialist expertise to investigate reported incidents. One officer of the Fraud Disclosure Desk is a member of the association of certified fraud examiners (ACFE) with a continuing professional education obligation. The Fraud Disclosure Desk completed 26 investigations into fraud and incident reports in the year under review. In nine cases, the management involved decided to impose a measure or sanction.

Every new employee is informed about the Alliander Code of Conduct for employees by means of a letter. In addition, employees take a mandatory e-learning course dealing with subjects relating to the code of conduct. The e-learning course helps employees to become even more conscious of integrity requirements and challenges. Integrity issues and ways of dealing with dilemmas in this field are also discussed in team meetings. This concerns such aspects as anti-corruption measures, prevention of conflicts of interest, dealing with gifts and dealing with confidential information.

In addition, all contracted suppliers of Alliander have committed to the Alliander Vendor Code of Conduct. This Code of Conduct is based on the guidelines of the Organisation for Economic Cooperation and Development (OECD) and requires vendors as well as their suppliers and manufacturers to adhere to ethical and fair business practices.

Handling complaints

The integrity policy includes a Complaints Procedure for Inappropriate Behaviour and a Whistleblower Policy. Employees can also raise concerns in confidence with Nominated Officers within Alliander. The Whistleblower Policy lays down how suspicions of abuse must be reported and handled within Alliander. This guarantees that every employee can report actual or suspected abuses of a general, operational and financial nature within Alliander. The Whistleblower Policy encourages employees to report every complaint or inappropriate situation within the organisation. They can do so internally to their manager, the Fraud Disclosure Desk or the Nominated Officer for whistleblowers. Incidents can also be reported to an external party under the protection of the Whistleblower Policy.

Once every six months, the Nominated Officer for whistleblowers provides the Management Board and the Audit Committee of the Supervisory Board with a list of whistleblowing reports received and the actions taken in response to these reports. All actual and suspected abuses and irregularities are immediately reported to the chairman of the Supervisory Board.

Guideline for the Prevention of Market Abuse

The Guideline for the Prevention of Market Abuse draws on the Alliander Code of Conduct and the European Market Abuse Regulation. The aim of the Guideline for the Prevention of Market Abuse is to set out in clear terms that employees are not permitted to share inside knowledge or use inside knowledge to conduct personal trading transactions in financial instruments of Alliander. The Guideline for the Prevention of Market Abuse describes the rules of conduct. This Guideline is also applicable to the members of the Management Board and the Supervisory Board.

The by-laws of the Management Board and the Supervisory Board stipulate that members of the Management Board and the Supervisory Board must adhere to disclosure and insider trading requirements that apply pursuant to the law or stock exchange regulations with regard to the ownership of or transactions in securities in listed companies.

Members of the Management Board

Ms I.D. (Ingrid) Thijssen, Chairman and CEO

Career

Ingrid Thijssen (1968) has served as chair of the Management Board/CEO since 1 September 2017. She joined the Management Board on 1 March 2014. In addition to serving as CEO, she is responsible for the business and operations management of network operator Liander. From 2011 to 2014, she chaired the Management Board of NS Reizigers B.V. Between 1997 and 2011, she held various executive and management roles at Nederlandse Spoorwegen (Dutch Railways).

Ingrid Thijssen earned a law degree from Utrecht University and completed various programmes, including a Strategy Programme at the International Institute for Management Development (IMD) in Lausanne 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 Supervisory Board of VGZ, a health insurance company ²
- Member of the Supervisory Board of the Port of Rotterdam²
- Chair of the Employers' Association for the Energy, Cable & Telecom and Waste & Environment Businesses in the Netherlands (WENB)
- Board member of SchuldenlabNL

Mr M.R. (Mark) van Lieshout, Member and CFO

Career

Mark van Lieshout (1963) has been a member of the Management Board/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 served as CFO of N.V. Nuon Business. Prior to 2003 he held various positions, including that of CFO of ABB Benelux.

Mark van Lieshout earned a degree in Business Economics from VU University Amsterdam. He also completed various Business Programmes at the International Institute for Management Development (IMD) in Lausanne 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 (and chair of the Audit Committee) of Canisius-Wilhelmina Hospital.

Members of the Supervisory Board



From left to right: G.L.M. Hamers, A.P.M. van der Veer-Vergeer, J.G. van der Linde, B. Roetert, A. Jorritsma-Lebbink

Ms A. (Annemarie) Jorritsma-Lebbink (1950), chair

- Nationality: Dutch
- First appointed to the Supervisory Board on: 1 July 2016
- Term of service: 2016-2020 (eligible for reappointment)
- Alliander committee: member of the Selection, Appointment and Remuneration Committee
- Background: Annemarie Jorritsma has been a Dutch Senate member for VVD (People's Party for Freedom and Democracy) since 9 June 2015 and has served as VVD Senate leader since 24 November 2015 After starting her national political career as a member of the Dutch House of Representatives in 1982, she served in two successive governments (Kok I and Kok II) as Minister of Transport, Public Works and Water Management and Minister of Economic Affairs and Deputy Prime Minister respectively. Annemarie Jorritsma was mayor of Almere from 2003 to 2015. She also chaired the Association of Dutch Municipalities (VNG) for seven years.
- Relevant other positions: member of the Supervisory Board of PricewaterhouseCoopers (PwC) Nederland B.V.¹, chair of the Netherlands Private Equity and Venture Capital Association (NVP), member of the Supervisory Board of HG International B.V.¹, member of the Dutch Senate.

Supervisory position at a large legal entity within the meaning of Section 142a, Book 2 of the Dutch Civil Code

Mr G.L.M. (Govert) Hamers (1952)

- Nationality: Dutch
- First appointed to the Supervisory Board on: 07 April 2016
- Term of service: 2016-2020 (eligible for reappointment)
- Alliander Committee: member of the Audit Committee
- Background: Govert Hamers served as CEO of Vanderlande Industries Holding B.V. from 2013 to mid-2017 and before that as CEO of international shipbuilder IHC Merwede (now Royal IC)
- Relevant other positions: chair of the International Entrepreneurship Committee of the Confederation of
 Netherlands Industry and Employers (VNO-NCW), member of the Government Committee on Export, Import and
 Investment Guarantees, member of STAK EXE Holding (a trust office), chair of STAK Koninklijke ICH (a trust office),
 member of the Advisory Committee Airborne Oil & Gas (AOG)

Ms J.G. (Coby) van der Linde (1957)

- Nationality: Dutch
- First appointed to the Supervisory Board on: 29 October 2009
- Term of service: 2017-2021 (not eligible for reappointment)
- Alliander Committee: member of the Audit Committee
- Background: Coby van der Linde is Director of Clingendael International Energy Programme and part-time
 professor of Geopolitics and Energy Transition at the University of Groningen (from 1 February 2018). In her
 previous career, she worked as a part-time professor of the international energy market at (successively) the
 University of Amsterdam and Leiden University.
- Relevant other positions: member of the Supervisory Board of Wintershall Nederland B.V.¹, member of the Supervisory Board of Wintershall Noordzee B.V.¹, member of International Advisory Board KAPSARC

Mr B. (Bert) Roetert (1956)

- Nationality: Dutch
- First appointed to the Supervisory Board on: 19 February 2015
- Term of service: 2015-2019 (eligible for reappointment)
- Alliander committee: chairman of the Selection, Appointment and Remuneration Committee
- Background: Bert Roetert is Director/Owner of Advies, Bestuur en Toezicht (AB&T)
- Previously he served as CEO of Schuitema N.V./C1000 B.V. and chairman of the Board of Friesland Foods West Europe.
- Relevant other positions: chairman of the Board of Centraal Bureau Levensmiddelen (CBL), chairman of the Board of Food Valley NL, chairman of the Supervisory Board of Zeeman Groep B.V. ¹, (technical) chairman of the Supervisory Board of Jan Linders Supermarkten ¹, member of the Supervisory Board of Royal Smilde ¹, member of the Supervisory Board of Noviflora Beheer B.V., chairman of the Advisory Council of SMEVA Valkenswaard, member of the Advisory Council of Hessing Supervers, chairman of Afvalfonds Verpakkingen, Board member of DDL/DDZ Duurzame Levensmiddelenketen

Supervisory position at a large legal entity within the meaning of Section 142a, Book 2 of the Dutch Civil Code

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

- Nationality: Dutch
- First appointed to the Supervisory Board on: 30 June 2009
- Term of service: 2016-2020 (not eligible for reappointment)
- Alliander committee: chairwoman of the Audit Committee
- Background: Ada van der Veer is management consultant on strategy and governance/Director of Stranergy
 Consultancy. Previously she served as CEO of Currence Holding B.V., CEO of KPN Business Solutions Division,
 member of the Executive Board of Achmea Bank Holding N.V. and chair of the Board of Staalbankiers N.V.
- Relevant other positions: chair of the Supervisory Board of Arcadis Nederland B.V.¹, member of the Supervisory
 Board of LeasePlan Corporation N.V. (through October 2018)¹, adviser to National Register of Supervisory
 Directors and Regulators, Board member of Stichting Preferente Aandelen Nedap, chair of the Accountancy
 Monitoring Committee

Supervisory position at a large legal entity within the meaning of Section 142a, Book 2 of the Dutch Civil Code

Report of the Supervisory Board

In our role as the Supervisory Board, we supervise the definition and achievement of objectives, the strategy, the long-term value creation, the policy of the Management Board and the operations in general at Alliander. In addition, we offer the Management Board solicited and unsolicited advice. We also serve as the employer of the Management Board and maintain contacts with internal and external stakeholders. In this report, we take accountability for our supervision in the past year and discuss the key aspects in which the Supervisory Board was involved.

Key aspects in 2018

Strategy

The Supervisory Board supervises the manner in which the Management Board pursues long-term value creation. In our meetings, we therefore regularly discuss the strategy, the implementation and status of the strategy and the principal attendant risks. Social, economic and financial sustainability is essential for the achievement of long-term value creation. For this reason, the Sustainable Development Goals are integrated into the strategy and impact measurement is used as a key instrument. Balanced choices need to be made, taking account of the interests of all stakeholders.

In 2018, we reviewed and tweaked our strategy. The Supervisory Board, together with the Management Board, paid extensive attention to the strategic focus, also during the annual strategy session. On this occasion, we reviewed the results achieved by Alliander in the past years. Other topics that were discussed at length included relevant trends, developments and innovations in the energy transition, the ongoing digitisation and the associated changes in our energy system as well as the future role that the network operators (Liander) and the network company (Alliander) have to play in this respect. We acted as the Management Board's sparring partner in the process of tweaking our strategic focus.

The coming years will see Alliander operating in a rapidly changing context. The upcoming Climate Agreement, the energy transition, the rapidly growing Dutch economy and the shortage of engineers will all present considerable challenges for Alliander. For this reason, certain themes require more focus than in the past years. For this reason, the company has opted to reorganise its activities according to five strategic focal themes:

- completion of work package
- energy transition portfolio
- heating transition
- cost-conscious and efficient operations
- knowledge and tools for customers and network colleagues

During the reporting year, we regularly met with the Management Board to speak about and discuss these strategic themes and found that major progress had been made on all themes. In addition, attention was devoted to our ability to finance all these developments in the medium term.

Sale of Allego

The Supervisory Board was deeply involved in the plan to sell our subsidiary Allego. The Management Board decided to sell because the fast and vigorous growth that Allego is currently undergoing is no longer consistent with the risk profile of a public network company.

After a careful assessment of the strategic, financial, operational and social aspects and taking account of the interests of all stakeholders, the Supervisory Board – based on a positive recommendation from the Audit Committee – approved the sale of Allego to Meridiam, a French investment company specialising in sustainable infrastructure projects. This international long-term investor makes an excellent fit with Allego's activities and perfectly positions the company for its next phase of rapid international growth (and the associated investments).

Achievement of corporate objectives

Each year, Alliander draws up an integrated business plan in which the strategic objectives are translated into concrete and measurable operational corporate objectives. The specific corporate objectives that Alliander sets itself in a year are defined in measurable financial and non-financial KPIs. Each quarter, the Management Board reports to the Supervisory Board on the interim results achieved in relation to these objectives. This enables the Supervisory Board to closely monitor the progress on the objectives and make adjustments where necessary. The Supervisory Board has established that some of the objectives for 2018 were achieved. We are critical about the objectives that were not achieved and explicitly challenged the Management Board on why the objectives were not, or only partly, achieved.

Internal risk management and control systems

The Supervisory Board (and the Audit Committee in particular) discussed the findings from the internal audits as well as the actions taken in response to these findings. The Supervisory Board monitors the progress of these actions based on the in control reports from the Internal Audit Department. We found that the business units acted in a rigorous and diligent manner on the findings in 2018. One of the effects was an improvement of the internal control of the materials procurement process.

In addition, the report on the 2018 interim audit and the management letter from our external auditor Deloitte, containing the 2018 interim audit findings on the internal controls (and the management's reaction to these findings), was discussed with the Audit Committee and the Supervisory Board in the presence of Deloitte. During the interim audit, the auditor observed a further improvement in the internal controls compared to the previous year. Deloitte found no material misstatements. However, Deloitte did make specific recommendations that have been, or will be, acted on by Alliander. Aspects for further improvement include the review of the BCF controls as part of the BCF process and the customer quotation process in the unregulated domain. The Supervisory Board was delighted to find that Deloitte is working with Alliander to expand the use of data analytics in the audit of investments.

Based partly on the reports of Deloitte and Internal Audit, the Supervisory Board and the Management Board are of the opinion that the internal risk management and control systems operated effectively. These provide reasonable assurance that the financial reporting of Alliander contains no material misstatements.

In addition, the risk management reports were discussed. These reports provide insight into the status and development of the management of the top risks Alliander is exposed to. Topics discussed in this context included the changed design of the risk matrix and risk management in relation to safe working practices. In the opinion of the Supervisory Board, the company pursues a balanced risk policy and keeps the Supervisory Board adequately informed of risk-related issues. For a description of the principal risks, see the Risks chapter in the Report of the Management Board.

Financial reporting

The Supervisory Board discussed the annual report and the financial statements 2018 at length, including the accompanying Board report, in the presence of Deloitte. During 2018, the Management Board provided the Supervisory Board with quarterly reports in which the actual financial results were set out and compared with the 2018 budget, the 2018 outlook and the results for 2017. Issues raised included developments in costs, rising investments and financial ratios.

In addition, we discussed Alliander's 2018 half-year report, including Deloitte's report of findings. Finally, we discussed and approved the 2019-2023 financial plan and the operational year plan 2019. The Audit Committee of the Supervisory Board carried out intensive preparatory work on all these matters. We are of the opinion that the financial reporting is adequate and presents a realistic picture of the company's financial position and financial performance.

The Supervisory Board was happy to find that the credit ratings of Standard & Poor's (AA-/A-1+ with stable outlook) and Moody's (Aa2/P-1 with stable outlook) were reaffirmed in 2018. We see that, alongside a sound financial policy, shareholders and other investors are increasingly focusing on sustainability performance. Oekom Research, a leading sustainability ratings agency, has awarded Alliander a Prime B+ rating. Both the credit ratings and the sustainability rating reflect Alliander's strong creditworthiness. This is important as the rating influences our finance costs and facilitates our access to the different financial markets.

Safety

Safety is a top priority for Alliander, both for its own employees and the employees of the contractors working for Alliander, and we, as the Supervisory Board, endorse this. Based on the quarterly reports, we monitor accidents that lead to absenteeism and the safety culture within the company. In addition, the Management Board regularly informs us about safety issues and incidents with dangerous materials that pose a potential health hazard and, even more importantly, about the measures taken or to be taken.

Culture and behaviour

In 2018, we again devoted extensive attention to the envisaged culture, standards and values with a view to long-term value creation. The Supervisory Board acknowledges the important role that an open, transparent and sufficiently self-critical culture has to play in the achievement of the corporate objectives. One of the tools in this context is Alliander's Code of Conduct. The Audit Committee of the Supervisory Board supervises compliance with the Code of Conduct. Suspicions of abuse can also be reported via the Whistleblower Policy.

In view of the strategic developments, an Alliander-wide leadership programme has been initiated. We were informed about this programme as well as the nature of the Alliander-wide leadership days that centre on the development of the right leadership qualities. The Supervisory Board will continue to devote extensive attention to the 'Leadership' theme next year. In addition, we received an update on the outcomes of the employee satisfaction survey, which measures such aspects as how employees rate our culture. Internal Audit and the external auditor also communicated their findings on culture and leadership to us. Our consultations with the Works Council and with managers form an important element for testing where we stand regarding our culture.

Alliander is engaged in a major cost-cutting operation. We received an update on cost savings in a separate session, while also being continuously informed of the progress made. To achieve the cost savings, it is vital to make cost awareness and cost-conscious practices an integral part of Alliander's culture.

We are aware of the importance of the tone at the top. In the relations between our board members and the relationship with the Management Board, there is sufficient room for debate, differences of opinion and discussion of sensitive issues. In addition, behaviour and culture form part of the annual assessment of the Supervisory Board and Management Board.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is an integral part of Alliander's strategy and its day-to-day operations. Alliander takes responsibility for a sustainable society, with a particular focus on the interests of the generations coming after us. The Supervisory Board sees three key CSR priorities for Alliander:

- Ensuring that the transition to renewable energy is realised in a controlled manner so that the energy system of the future remains affordable, reliable and accessible to everyone on equal terms
- Ensuring that our operations are sustainable
- Ensuring that we operate as a good corporate citizen

More information on the many sustainability initiatives being undertaken can be found in the report of the management board. We support these initiatives which, in our opinion, contribute to long-term value creation.

Composition of the Management Board

The composition of the Management Board remained unchanged in 2018. The Management Board consists of Ingrid Thijssen (CEO) and Mark van Lieshout (CFO). At the end of 2018 it was announced that Mark van Lieshout would leave the company in the course of the current year. Although he will step down on 1 March 2019, his services will continue to be available to Alliander until 1 July 2019. In his role as CFO since 2010, Mark van Lieshout has helped make Alliander become the organisation it is today. The Supervisory Board is extremely grateful to him for this. The procedure for finding his successor has been set in motion.

Contact with the Works Council

Members of the Supervisory Board attended consultative meetings with the Works Council in different compositions. In addition, the full Supervisory Board meets with the Works Council once a year during a joint meeting. Topics discussed in 2018 included the completion of the work package and behaviour and culture. The Supervisory Board regards the consultation with the Works Council as constructive and valuable.

Relationship with shareholders

Barring the General Meeting of Shareholders, the Supervisory Board has limited contact with the shareholders in its official capacity. The Management Board does hold regular consultations with the major shareholders. In 2018, informal consultations were held with major shareholders on five occasions. Topics discussed included the updated strategy, the sale of Allego and the upcoming Climate Agreement. The Supervisory Board was consistently kept informed of these contacts.

In addition, the Selection, Appointment and Remuneration Committee consulted twice with the Committee of Shareholders about the implementation of the remuneration policy of the Management Board and about the departure of Mark van Lieshout.

The Supervisory Board considers it important to maintain good relations with shareholders and is of the opinion that the shareholders' interests were served in a constructive and careful manner in 2018.

No conflicts of interest

In 2018, no transactions led to potential conflicts of interest that are of material significance to the company and/or the relevant management board members, supervisory board members, shareholders and/or external auditor.

Other subjects

Other subjects that received special attention in 2018 were:

- the progress of the talks on the upcoming Climate Agreement
- the preparation of the annual meeting of shareholders
- the developments at Alliander Telecom concerning optical fibre and wireless services
- our operational strategy for Germany
- the strategy for digital solutions in the energy system of the future
- employee development and succession planning (including Management Board positions)
- the approval of the issuance of a new perpetual subordinated bond for € 500 million and the buy-back of a perpetual bond issued in 2013
- the approval of the Internal Audit year plan 2019

Committees of Supervisory Board

The Supervisory Board has set up two committees that advise the Supervisory Board on specific tasks and prepare its decision-making. These are the Audit Committee and the combined Selection, Appointment and Remuneration Committee. The task of these committees is to prepare the decision-making for the Supervisory Board in their field of expertise and to advise the Supervisory Board. Their most important considerations and conclusions were shared with the Supervisory Board, where the formal decision-making takes place. The activities of both committees are reported on below.

Audit Committee

In 2018, the members of the Audit Committee were Ada van der Veer (chair), Govert Hamers (member) and Coby van der Linde (member). Ada van der Veer fulfils the role of financial expert, as set out in Article 2(3), concluding sentence, of the Decree on the appointment of audit committees. The Audit Committee extensively discussed the financial statements, the Report of the Management Board, the interim and quarterly figures, the external auditor's half-year review report, the management letter, the financial 2019-2023 plan, the operational year plan, the risk management and internal control framework and the internal and external audit plans with the CFO, the Internal Audit Manager, the Business Control Manager, the Corporate Control Manager and the external auditor. Furthermore, the Audit Committee discussed the Fraud & Incidents Reports, which report on fraud, theft and embezzlement as well as on disclosures under the Whistleblower Policy and the Alliander Code of Conduct and the actions taken in response.

In 2018, the Audit Committee devoted specific attention to the top fraud risks within Alliander and the controls that are in place to mitigate these risks. In addition, attention was devoted to IT risk management during the year. In this context, the Audit Committee also gave due consideration to the risks of cloud storage, measures to manage the security risks of outsourcing and the requisite security level for Alliander. The Audit Committee found that progress had been made towards the mitigation of the most important IT risks. In addition, the Audit Committee dedicated considerable time to the sale of Allego.

In line with other years, the Audit Committee devoted attention to the financing policy, tax planning and status of the tax returns, impairment testing, position papers and the impact of new reporting standards.

The Audit Committee held one meeting in private with the external auditor. The Audit Committee believes that the relationship with the external auditor is satisfactory. Finally, the Audit Committee was involved in the appointment of the new Internal Audit Manager.

Selection, Appointment and Remuneration Committee

In the year under review, the members of the Selection, Appointment and Remuneration Committee were Bert Roetert (chair) and Annemarie Jorritsma (member). Some meetings were attended by the chair of the Management Board and the HRM Director.

In 2018, the Committee prepared the reappointment of Bert Roetert. The Committee carried out preparatory tasks for the Remuneration Report and the annual remuneration meeting between the Selection, Appointment and Remuneration Committee and the Committee of Shareholders. Furthermore, it was informed about the outcomes of the Internal Audit Department's audit of the Management Board's expense claims. Finally, the Committee devoted attention to the developments surrounding the Public and Semi-Public Sector Executives Pay (Standards) Act and conducted the annual performance appraisal interviews with the Management Board members.

Supervisory Board: composition, independence and diversity

Composition and independence

The composition of the Supervisory Board remained unchanged in 2018. The composition is as follows:

Name	Role	Year of first appointment	Year of reappointment	Year of retirement
Annemarie Jorritsma (chair)	chair	2016	n/a	2020 (eligible for reappointment)
Govert Hamers	member	2016	n/a	2020 (eligible for reappointment)
Coby van der Linde	member	2009	2013, 2017	2021 (not eligible for reappointment)
Bert Roetert	member	2015	n/a	2019 (eligible for reappointment)
Ada van der Veer	member	2009	2012, 2016	2020 (not eligible for reappointment)

All members of the Supervisory Board are independent within the meaning of best practice provisions 2.1.7, 2.1.8 and 2.1.9 of the Dutch Corporate Governance Code. Owing to her supervisory board memberships at Wintershall Nederland B.V. and Wintershall Noordzee B.V., Ms Van der Linde is not independent as prescribed in the Dutch Electricity Act 1998 and the Dutch Gas Act. All other members of the Supervisory Board are independent within the meaning of these Acts. This means that none of them has a direct or indirect connection with an electricity or gas producer, supplier or trader.

Other positions held by Supervisory Board members outside the company are reported in advance to the Supervisory Board and are disclosed in the annual report. No Supervisory Board members hold a position outside the company that is in conflict with their Supervisory Board membership at Alliander. In addition, no Supervisory Board members hold more than five supervisory positions at Dutch listed companies or other large Dutch companies (public or private companies or foundations), where a chairmanship counts as two supervisory positions. During the year under review, the other positions of the Supervisory Board members were discussed once (Article 2.4.2 of the Dutch Corporate Governance Code). The number and nature of the other positions of each Supervisory Board member are such that a proper fulfilment of the tasks is assured.

Diversity

Supervisory Board members are selected on the basis of a profile describing their required professional background, experience, skills, diversity and independence. In 2017, a diversity policy for the composition of the Management Board and the Supervisory Board was adopted with the following aims:

- a good gender balance in both the Management Board and the Supervisory Board: a target percentage of at least 30% women and at least 30% men
- a complementary composition regarding experience and professional background
- a balanced mix of ages

The Supervisory Board consists of three women and two men, which is in line with the target percentage. Regarding the areas of experience and knowledge identified as relevant for Alliander in the profile of the Supervisory Board, there is insufficient experience and knowledge in the field of ICT. In addition, the Supervisory Board seeks to bring about more age diversity. In 2018, there were no vacancies in the Supervisory Board, so that no further action on diversity could be taken. The Supervisory Board has the firm intention to seek further diversity whenever vacancies, excluding reappointments, occur.

Self-assessment

Each year, the Supervisory Board carries out a self-assessment of its performance, the performance of the separate committees and that of the individual Supervisory Board members outside the presence of the Management Board. This self-assessment also takes on board the working relationship with the Management Board. In 2018, the self-assessment was performed with the aid of an external adviser. Intake interviews were held with the members of the Supervisory Board, the members of the Management Board and various management members. The findings from the interviews were discussed during a dialogue session with the Supervisory Board.

The subjects addressed in our self-assessment included: the Supervisory Board's performance in its role as supervisor, employer, advisor and sounding board, long-term value creation, succession planning and interpersonal dynamics and communication style. The general picture that emerged from this self-assessment is positive. The relations within the Supervisory Board and between the Supervisory Board and the Management Board are good. The level of involvement is high, as is the mutual respect and trust. In addition, we are satisfied about the committees. The thorough preparatory work of the committees increases the efficiency of the Supervisory Board meetings. Regarding the relationship between the Supervisory Board and the Management Board, the Supervisory Board is satisfied about the openness and transparency. A lot of information is shared, documents are well-prepared and good agendas are set in consultation with the chairman.

The most important recommendation to come out of the self-assessment concerns the need to play a stronger role as advisor and sounding board alongside the role as supervisor and employer. We will review how we can reinforce our role as sparring partner and adviser of the Management Board even further. In this context, we want to give particular attention to the long-term strategy, while also devoting more attention to the succession planning for our Supervisory Board members.

Meeting frequency and attendance

In 2018, the Supervisory Board convened ten times: eight of these were scheduled meetings and two were additional meetings in connection with the sale of subsidiary Allego. The first half hour of each Supervisory Board meeting takes place in private without other participants. Other participants in the Supervisory Board meetings are the members of the Management Board and, upon invitation, the external auditor and management members.

The Supervisory Board has two committees: an Audit Committee and a combined Selection, Appointment and Remuneration Committee. The Audit Committee met seven times in 2018 and the Selection, Appointment and Remuneration Committee held two meetings. The attendance record of the individual Supervisory Board members is given below.

Name	Supervisory Board	Audit Committee	Selection, Appointment and Remuneration Committee
Annemarie Jorritsma	100%		100%
Govert Hamers	70%	57%	
Coby van der Linde	100%	100%	
Bert Roetert	100%		100%
Ada van der Veer	100%	100%	

Recommendation on the financial statements for 2018

The Supervisory Board puts the financial statements as prepared by the Management Board to the General Meeting of Shareholders for adoption. The financial statements were audited by Deloitte Accountants B.V., which issued an unqualified opinion. The members of the Management Board and Supervisory Board signed the financial statements.

We recommend that the shareholders adopt the financial statements for 2018 at the General Meeting of Shareholders on 10 April 2019 as well as the dividend proposal for 2018. Furthermore, we propose that the General Meeting of Shareholders discharge the members of the Management Board and the Supervisory Board from responsibility for their management and supervision, respectively, in the 2018 financial year.

Word of appreciation

We express our appreciation for the results achieved and thank all employees and the Management Board for their contribution and commitment. We want to thank the shareholders for their support and trust in Alliander.

Arnhem, the Netherlands, 15 February 2019

Supervisory Board

Annemarie Jorritsma (chair) Govert Hamers Coby van der Linde Bert Roetert Ada van der Veer

Remuneration report

Remuneration policy for the Management Board

General

The remuneration policy for the Management Board is based on the principle that the remuneration must be in line with market practices and that this must enable Alliander to recruit and retain qualified and expert Management Board members. The current remuneration policy was adopted by the General Meeting of Shareholders in May 2004 and was last amended in April 2006.

The Supervisory Board is responsible for the implementation of the adopted remuneration policy for the Management Board. The Public and Semi-Public Sector Executives Pay (Standards) Act (WNT), which sets limits for the remuneration of senior executives within the public and semi-public sector, is not applicable to Alliander. However, the Supervisory Board is acutely aware of the evolving perceptions within society regarding remuneration in the public and semi-public sector. Against this background, the Supervisory Board finds it acceptable to cap the remuneration at 130% of a minister's remuneration. It is expected that this level of remuneration will be sufficient to maintain the quality of the company's management, which is of vital importance in the light of the radical changes facing the company as a consequence of the energy transition.

In concrete terms, this has the following implications for the members of the Management Board. Ms I.D. Thijssen is a member (chair) of the Management Board of Alliander. In addition to serving as CEO, she is responsible for the business and operations management of network operator Liander. In this latter capacity, Ms Thijssen qualifies as a senior executive of Liander under the WNT. In view of this, her remuneration package for Liander is subject to a statutory pay cap. Ms Thijssen's total remuneration does not exceed the pay cap that has been introduced for Alliander.

Mr M.R. van Lieshout, member of the Management Board of Alliander, has committed on a voluntary basis to a reduction in his previously agreed salary to the capped remuneration level as introduced for Alliander, on the understanding that existing arrangements will be respected insofar as possible.

Finally, the Supervisory Board advocates the introduction of a sector-wide, multi-category remuneration code. The aim is to create a level playing field and ensure that all companies can compete with their peers on equal terms in the relevant labour market in terms of technological developments, complexity and required knowledge.

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 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.

Variable remuneration

Alliander does not award any variable remuneration to the Management Board.

Remuneration components

The total remuneration package for the Management Board members for 2018 consists of the following components:

- 1. annual gross base salary
- 2. pension benefits
- 3. social security contributions and other benefits

Re 1. 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, insofar as permitted based on (and in compliance with) the agreed remuneration arrangements and existing internal and external rules and regulations.

Re 2. Pension benefits

Management Board members 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. Management Board members pay an individual contribution to participate in the pension scheme.

Effective from 1 January 2015, the maximum pensionable salary has been equal to the permitted maximum under tax rules (\in 105,075 for 2018). This implies that no further pension is accrued over the part of the salary that exceeds \in 105,075.

Re 3. Social security contributions and other benefits

In addition to the social security 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 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 must approve any supervisory board membership or other paid position, including positions of an advisory or supervisory nature, while other positions outside the company must be reported in advance to the Supervisory Board. A Management Board member cannot hold more than two supervisory positions in large Dutch companies or large foundations. In addition, a Management Board member cannot be the chairman of a supervisory body of a large Dutch company or large foundation.

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 not held pursuant to membership of Alliander's Management Board accrues to the Management Board member concerned, who is also liable for any tax consequences.

Other principles

Term of service

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, other than for a compelling reason, it is company policy to award a severance payment of no more than one gross annual salary. 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 the policy.

Remuneration policy for the Management Board in 2018

General

In drawing up its proposal for the remuneration of the individual Management Board members, the Selection, Appointment and Remuneration Committee also took note of the views of the individual members of the Management Board regarding the level and structure of their own remuneration.

1. Annual gross base salary

In the 2018 calendar year, Ms Thijssen's base salary amounted to € 222,000, including 8% holiday allowance. In the 2018 calendar year, Mr Van Lieshout's base salary amounted to € 281,000, including 8% holiday allowance.

2. Pension benefits

Pension costs relate to standard pension contributions, which are based on the annual gross base pensionable salary, up to the permitted maximum of \leqslant 105,075 under tax rules. The total pension contributions paid in the year under review were \leqslant 21,000 for Ms Thijssen and \leqslant 23,000 for Mr Van Lieshout.

3. Social security contributions and other benefits

In 2018, the total amount of social security contributions, the employer's contribution towards the premium for the health insurance plan, contributions to the personal employee benefits budget amounted to \le 12,000 3 for Ms Thijssen and \le 18,000 for Mr Van Lieshout.

Termination and exit policy

The Supervisory Board acted in conformity of the contractual agreements that had been made with Mr Van Lieshout in arranging for his exit from the company. The Supervisory Board took the initiative for his departure and followed the relevant procedures.

Remuneration ratio

The median of the remuneration of all employees of Alliander set against the remuneration of the various Management Board members results in the following remuneration ratios:

Management Board members	Ingrid Thijssen	Mark van I	Lieshout
	2018 2017	2018	2017
Ratio	3.7 3.6	4.7	5.0

Principles:

- The calculation for both employees and Management Board members was based on the following elements:
 base remuneration, employer's contribution towards pension, social security contributions and other applicable remuneration elements.
- Both full-time and part-time employees were included in the calculation.

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 was adopted by the General Meeting of Shareholders in 2011 and consists of a fixed annual gross amount for the chair and a fixed annual gross amount for the other members. Furthermore, additional fixed annual gross amounts are paid to the members of the different Supervisory Board committees. The remunerations are adjusted yearly 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 taken out for the members of the Supervisory Board.

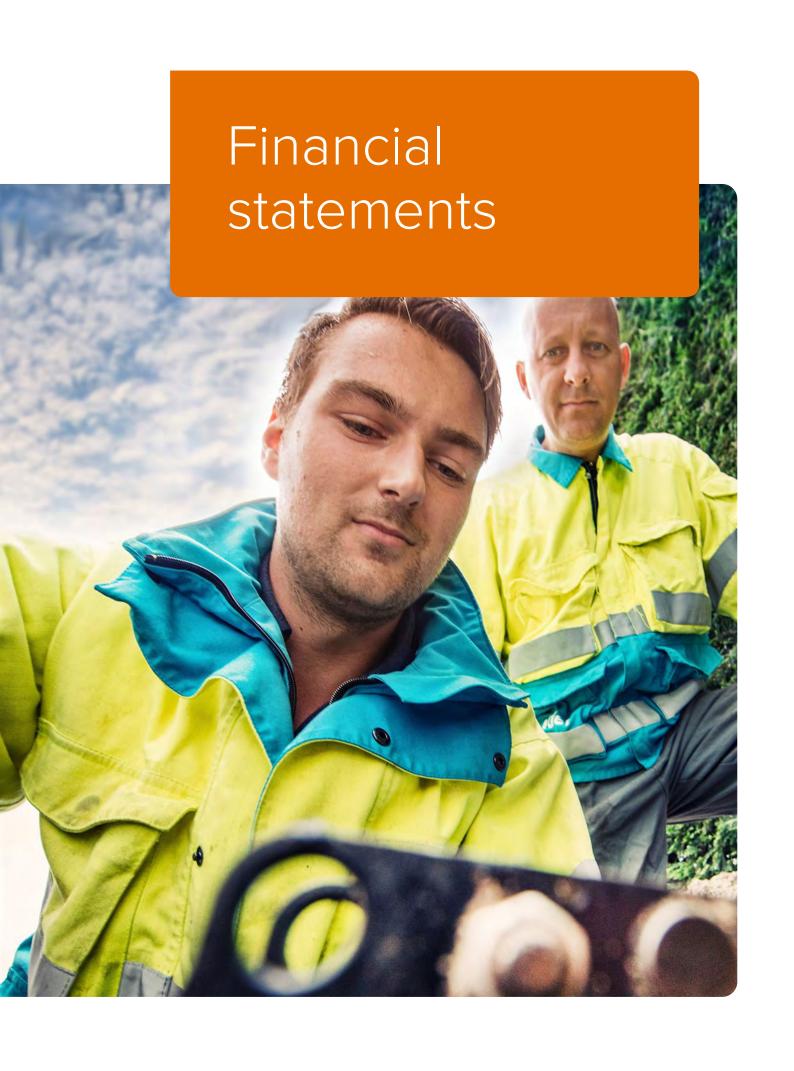
The WNT restricts the implementation of the remuneration policy as described above for the members of the Supervisory Board in their capacity as supervisors of the Liander network operator. Effective from 1 January 2015, the WNT has limited the maximum remuneration of the Supervisory Board chairman and Supervisory Board members to 15% and 10% respectively of the maximum WNT limit applicable to Liander.

For an overview of the total remuneration awarded to the members of the Supervisory Board for 2018, see the notes to the consolidated financial statements.

WNT

Alliander is not governed by the WNT, but Liander N.V. is. The WNT requires companies to report on the remuneration of current and former senior executives. In addition, the WNT requests transparency on any remunerations of non-senior executive employees that exceed the set limit in the reporting year. The annual report of the network operator, which is to be published in the second quarter of 2019, will contain disclosures on the WNT requirements.

³ Ms Thijssen is not awarded an allowance for entertainment expenses. Given that Mr Van Lieshout is preparing to leave the company, he has not received such an allowance since 1 April 2018 either.



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Consolidated financial statements

Consolidated balance sheet

€ million	Note	2018	2017	
Assets				
Non-current assets				
Property, plant and equipment	3	7,072	6,793	
Intangible assets	4	315	317	
Investments in associates and joint ventures	5	4	3	
Investments in bonds	6	156	193	
Other financial assets	7	71	41	
Deferred tax assets	17	172	205	
Determed tax desert			90	7,552
				.,
Current assets				
Inventories	9	66	74	
Trade and other receivables	10	349	342	
Cash and cash equivalents	11	140	101	
		Ę	55	517
-				0.000
Total assets		8,3	345	8,069
Equity and liabilities				
Equity	12			
Share capital		684	684	
Share premium		671	671	
Subordinated perpetual bond loan		495	496	
Revaluation reserve		-	38	
Other reserves		1,945	1,850	
Result for the year		334	203	
Total equity		4,	29	3,942
Liabilities				
Non-current liabilities	40	4.475	4550	
Interest-bearing debt	13	1,475	1,553	
Finance lease liabilities	19	159	150	
Deferred income	14	1,682	1,629	
Provisions for employee benefits	15	33	49	
Deferred tax liabilities	17 16	4 10	5 7	
Other provisions	16			3,393
		3,3	963	3,393
Short-term liabilities				
Trade and other payables	18	150	133	
Tax liabilities		96	80	
Interest-bearing debt	13	321	231	
Provisions for employee benefits	15	42	33	
Accruals and deferred income	8, 18	244	257	
		8	:53	734
Total liabilities		4	216	4,127
		,		7,127
Total equity and liabilities		8,3	45	8,069

Consolidated income statement

€ million	Note	2018	2017'
Revenue	21	1,920	1,797
Other income	22	148	43
Total income	_	2,0	58 1,840
Operating expenses			
Purchase costs and costs of subcontracted work	23	-424	-402
Employee benefit expenses	24	-500	-485
External personnel expenses	24	-137	-151
Other operating expenses	25	-343	-329
Total purchase costs, costs of subcontracted work and operating expenses		-1,404	-1,367
Depreciation and impairment of property, plant and equipment	26	-409	-396
Less: Own work capitalised		241	228
Total operating expenses		-1,5	72 -1,535
Operating profit		4	96 305
Finance income	27	:	20 67
Finance expense	28	_	-110
Result from associates and joint ventures after tax	5		3
Profit before tax		4	53 271
Tax	29	 	19 -68
Profit after tax from continuing operations		3	34 203
Profit after tax		3	34 203

¹ The implementation of IFRS 15 with effect from 1 January 2018 means that the connection contribution amortisation amounts have been reclassified as revenue rather than other income. The comparative figures for 2017 have been restated.

The profit after tax for 2018 is almost entirely attributable to the shareholders of Alliander N.V.

Consolidated statement of comprehensive income

The comprehensive income was as follows:

€ million		2018	2017
Profit after tax		334	203
Other elements of comprehensive income			
Items that will be reclassified subsequently to profit or loss	40		40
Investments in bonds Tax	12]	-10
			2
Comprehensive income after tax		334	195

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

Consolidated cash flow statement

€ million	Note	2018	2017
Cash flow from operating activities	30		
Profit after tax		33	4
Adjustments for:			
- Finance income and expense	27, 28	4	6
- Tax	29	11	
- Result after tax from associates and joint ventures	5	-	
- Depreciation, amortisation and impairment	22, 26	33	
- Book profit on sale of Allego	33	-10	
Changes in working capital:	33	-10	5
- Inventories		8	-10
- Trade and other receivables		-20	-61
- Trade and other payables and accruals and deferred income	_	20	29
Total changes in working capital			-
Changes in deferred tax, provisions, derivatives and other		1	0
Cash flow from operations		74	7 5
Interest paid		EA	47
Interest paid		-54	-47
Interest received		2	2
Corporate income tax paid (received)		-57	-56
Total		-10	9
Cash flow from operating activities		63	8 4
Cash flow from investing activities	30		
Investments in property, plant and equipment	3	-731	-666
Construction contributions received from third parties	14	126	96
Financial assets (associates and joint ventures) – Investments and divestments		-1	14
Sale of high-voltage grid		-	7
Sale of Allego		110	-
Cash flow from investing activities		-49	6 -5
Cash flow from financing activities	30		
ECP financing issued (redeemed)	13	-224	183
Long-term debt issued	13	228	81
Long-term debt redeemed	14	-3	- -
Short-term debt issued	13	14	_
Loans granted	11	-14	-11
Repayments of short-term debt	13	10	"
Received (granted) current deposits	11	10	15
Issue of subordinated perpetual bond	12	495	15
Repayment of subordinated perpetual bond			-
	12	-496	10
Reimbursement on subordinated perpetual bond	12	-21	-16
Dividend paid		-92	-104
Cash flow from financing activities		-10	3 1
Net cash flow		3	9
Cash and cash equivalents as at 1 January		10)1
Net cash flow		3	
Cash and cash equivalents as at 31 December		14	0

Consolidated statement of changes in equity

			Equity	attributable to sh	areholders and o	ther providers of	capital	
				Subordinated				
0 30	Note	Chara agaital	Chara arami	perpetual bond	Revaluation	Otherwan	Result for the	Total
€ million	Note	Share capital	Share premium	loan	reserve	Other reserves	year	
As at 1 January 2017		684	671	496	46	1,685	282	3,864
Revaluation of available-for-sale financial assets		-	-	_	-8	_	-	-8
Profit after tax for 2017		-	-	-	-	-	203	203
Comprehensive income for 2017		-	-	-	-8	-	203	195
Other¹		-	-	_	-	-1	-	-1
Reimbursement on subordinated perpetual bond after tax		=	-	-	-	-12	-	-12
Dividend for 2016		-	-	-	=	-	-104	-104
Profit appropriation for 2016		-	-	-	-	178	-178	-
As at 31 December 2017		684	671	496	38	1,850	203	3,942
Profit after tax for 2018		-	-	-	-	-	334	334
Comprehensive income for 2018		-	-	-	-	-	334	334
Change in valuation on the basis of IFRS 9		-	-	-	-38	5	-	-33
Reimbursement on subordinated perpetual bond after tax Repayment of subordinated	12	-	-	_	-	-21	-	-21
perpetual bond Issue of subordinated perpetual		-	-	-496	-	-	-	-496
bond		-	-	495	-	-	-	495
Dividend for 2017		=	-	-	-	-	-92	-92
Profit appropriation for 2017		=	-	-	=	111	-111	-
As at 31 December 2018		684	671	495	_	1,945	334	4,129

 $^{1 \ \ \}text{Other consists of remeasurements for post-employment benefit obligations}.$

Notes to the consolidated financial statements

Accounting policies

Alliander N.V. is a public limited liability company, registered in Arnhem, the Netherlands.

The 2018 financial statements were signed by the members of the Management Board and the members of the Supervisory Board on 15 February 2019. The Supervisory Board will submit the financial statements for adoption by the General Meeting of Shareholders on 10 April 2019. The accounting policies are based on the assumption of a going concern

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 subsidiary Liander owns and manages the regional gas and electricity networks in the provinces of Gelderland, Friesland, Noord-Holland and parts of Zuid-Holland, Flevoland and the Noordoostpolder. 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. Qirion (formerly Liandon) 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, including Firan (formerly Alliander Duurzame Gebiedsontwikkeling), BackHoom and Energy Exchange Enablers set up in recent years and the subsidiary Locamation acquired in 2018, Alliander has taken the initiative in and is facilitating developments and activities aimed at creating a sustainable energy supply for the Netherlands. A review of 2018 can be found on our annual report website. 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.

Non-controlling interests

There are third-party non-controlling interests in Alliander's activities. This concerns a 5% interest on the part of the Municipality of Nijmegen in Indigo B.V., a 5% interest on part of the Municipality of Hengelo in Warmtenetwerk Hengelo B.V. and a 25% interest in Warmte-Infrastructuur Limburg Geothermie B.V., all subsidiaries of Firan, see note [12].

IFRS

Alliander's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as at 31 December 2018, as adopted by the European Union (EU), and the provisions of Title 9, Book 2 BW. 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.

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.

New and/or amended IFRS standards applicable in 2018

The IASB and the IFRIC have issued new and/or amended standards and interpretations which are applicable to Alliander with effect from the 2018 financial year. The standards and interpretations below have been endorsed by the European Union.

In July 2014, the IASB published the 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 any hedge accounting in relation to financial instruments and largely replaces the requirements of IAS 39. IFRS 9 is applicable to reporting periods beginning on or after 1 January 2018.

For Alliander, the main impact of IFRS 9 is a change of policy with respect to the recognition and measurement of financial assets and credit losses on them. This means that the financial assets are valued at amortised cost. The revised standard does not result in any change with respect to the recognition and treatment of financial liabilities. The financial assets are classified as assets that are valued after initial recognition based on both the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset at:

- amortised cost.
- fair value through other comprehensive income, or
- fair value through profit or loss

For financial assets, along with lease receivables and contract assets, provisions are recognised for expected credit losses.

An implementation programme for IFRS 9 was begun at Alliander in 2017. IFRS 9 has been applied retrospectively using the exemption not to restate the prior periods for financial assets valued at amortised cost.

Alliander has a modest portfolio of financial instruments classified as 'investments in bonds'. This portfolio, comprising an investment in bonds, was measured at fair value. Given the business model, i.e. 'held to maturity', the bonds will be valued at amortised cost instead of at fair value under IFRS 9. This change means that the carrying amount of the bonds is reduced by \leq 45 million, charged to other reserves as at 1 January 2018. The original recognition in equity of a revaluation reserve of \leq 38 million and the associated deferred tax of \leq 13 million ceases to apply, this change likewise being accounted for in other reserves;

	Changes in GE notes (€ million)
December 31, 2017 Value adjustment due to IFRS 9, including expected credit loss	193 -45
As of January 1, 2018	148
Currency translation differences	8
As at 31 December 2018	156

The amortised cost of the investment in bonds (GE notes) as at 31 December 2018 amounted to €156 million.

The impact of the new impairment model, in relation to the other financial assets, has led to recognition of an impairment loss of €2 million. The expected credit losses on trade and other receivables are essentially recognised on a collective basis with provisioning as from the date of the initial recognition according to a stepped profile based on historical default loss experience. Alliander also has a modest position in other financial assets. The credit risk on these assets is determined on an individual basis, with the default risk partly arrived at using counterparty credit ratings from leading credit rating agencies and the expected loss provisioning averaged accordingly. The impact of this is minimal and mainly of a procedural nature. Overall, implementation of IFRS 9 with effect from 1 January 2018 produces a positive change of €5 million in the other reserves in shareholders' equity.

Alliander did not make any use of hedge accounting as at 1 January 2018 or in 2018.

IFRS 15

IFRS 15 replaces the standards IAS 11 'Construction Contracts' and IAS 18 'Revenue Recognition' on 1 January 2018. In essence, IFRS 15 means 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 specific transaction prices of those performance obligations.

The basic principle of IFRS 15 is: the revenue recognition should reflect the transfer of goods and services to customers. The amount must reflect the compensation that is expected to be payable in exchange for the goods and services that have been agreed to be delivered. To recognise revenue under IFRS 15, an entity applies the following five steps:

- 1. identify the contract
- 2. identify the performance obligations in the contract
- 3. determine the transaction price
- 4. allocate the transaction price to each performance obligation
- 5. recognise revenue when performance obligations are satisfied.

In 2015, an implementation programme was initiated for all Alliander business units 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 would have on the accounting and other systems. This implementation programme was concluded in 2017. The impact for the regulated activities and for the deregulated activities is immaterial in terms of both the measurement and the recognition of revenue. In connection with the implementation, a number of changes have been made to the financial systems to enable the reporting requirements to be met.

Revenue is measured on the basis of the contractual performance obligations to customers. This excludes amounts received on behalf of third parties. Revenue is recognised at the moment the control of goods and services passes to the customer.

In assessing the contracts, separate portfolio-based approaches are used for matters such as the connection, transport and metering services of the distribution system operating activities. Customer contracts for these services are entered into indefinitely, with the customer paying an investment contribution at the inception of the contract, followed by periodical payments for the service provided. The provision of this service concerns performance obligations satisfied over time. The related revenue is recognised over the period in which the customer receives the service. The upfront investment contribution concerns a payment for a performance obligation to be satisfied over the duration of the contract by the connection service providing access to the required assets. The contribution received is recognised in the balance sheet as a performance obligation that is still to be satisfied – deferred income – which is amortised over the useful life of the assets concerned.

Prior to the implementation of IFRS 15, the amounts in respect of this amortisation were included in other income. Under IFRS 15, Alliander recognises all income from contracts with customers (IFRS 15) as revenue, with only other income, such as rental income, accounted for as other income. Alliander is applying IFRS 15 retrospectively and the decision to treat all income as defined in IFRS 15 as revenue leads to restatement of the comparative figures for 2017, resulting in the transfer of €99 million from other income to revenue in the 2017 income statement.

IFRS 15 also includes extensive disclosure requirements, including segment information relating to the revenue from contracts with customers. The analysis of revenue by segment is presented in greater detail under the heading of segment information.

In addition to the implementation of IFRS 9 and IFRS 15 with effect from 1 January 2018, the following changes are applicable in 2018:

- 'IFRS annual improvements 2014–2016'
 - IFRS 1: 'First-Time Adoption of IFRS';
 - IAS 28: 'Investments in Associates and Joint Ventures';
- Amendment to IFRS 2: 'Classification and Measurement of Share-Based Payment Transactions';
- IFRS 4: 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts';
- IFRIC 22: 'Foreign Currency Transactions and Advance Consideration';
- Amendment to IAS 40: 'Transfers of Investment Property'.

Only the amendments to IAS 28 and the new IFRIC 22 are relevant to Alliander but neither has any material impact on Alliander so they will not be further discussed in these 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 which will be applicable to Alliander in subsequent financial years. These standards and interpretations can only be applied if adopted by the European Union.

The following changes may be of relevance to Alliander.

IFRS 16

The IASB published the new standard for leases on 13 January 2016. An implementation programme was begun at Alliander in 2017 to identify all the significant leasing arrangements. The implementation process for the new standard has now reached a stage where it can be decided how Alliander is going to deal with the changes from both an organisational and a systems point of view.

Alliander will be implementing IFRS 16 with effect from 1 January 2019, using the modified retrospective approach rather than the full retrospective approach. Full retrospective approach would be too burdensome in view of the significance of leases in Alliander's case.

An important implication of the implementation of IFRS 16 for Alliander as lessee is that rights and obligations under operating leases will be included in the balance sheet. This will have the effect of increasing the size of the balance sheet to a certain extent. There will also be a shift in the income statement from operating expenses to depreciation and to finance expense. For the 2019 reporting period, Alliander expects there to be a shift of approximately \le 16 million from the other operating expenses to depreciation (\le 15 million) and to finance expense (\le 1 million). As regards the cash flow statement for 2019 the implementation of IFRS 16 means an increase of \le 15 million in the cash flow from operating activities with a corresponding decrease in the cash flow from financing activities.

In determining the existence of a lease, the provisions of IFRS 16.9 apply. Additionally, use will be made of the following exemptions where possible: short-term leases of less than 12 months and leases relating to assets with a value of less than \leq 5,000.

The following practical approaches have also been applied:

- Alliander is taking the practical approach of applying the existing type classification of the leases for the current
 contracts as at 1 January 2019, meaning that the distinction between finance leases and operating leases in the
 financial reporting in relation to the existing leases as at 1 January 2019 where Alliander is lessee will not be
 relevant anymore. New leases will, however, be treated in accordance with IFRS 16 with effect from 1 January
 2019.
- Existing finance leases where the asset value is less than €5,000 will no longer be included in the balance sheet with effect from 1 January 2019. The corresponding lease instalments will be recognised directly in the income statement. This will have the effect of reducing the balance sheet total as at 1 January 2019 by €1 million.
- By taking the modified retrospective approach, the value of the lease asset as at 1 January 2019 becomes identical to the value of the lease liability. There will therefore be no sudden change in the financial position.

To measure the lease liabilities and the right-of-use assets as at 1 January 2019, use is made of the marginal interest rates as at 1 January 2019, in accordance with IFRS 16.C8.b.ii. The marginal interest rate is determined on the basis of the risk-free market interest rate plus a risk markup specific to Alliander over a similar period and with the same type of security as the terms on which Alliander would be able to obtain finance to acquire a comparable asset as at 1 January 2019

The implementation of IFRS 16 has the effect of increasing the balance sheet total by €59 million as at 1 January 2019, made up of an increase in lease liabilities and a corresponding increase in lease assets. By far the greater part of these lease liabilities relates to business premises and lease vehicles. Also accounted for in this amount are ground rents as well as the rental of telecommunication masts and connections.

The new standard does not affect the way in which the cross-border leases are accounted for, however. As provided by IFRS 16.B2, these fall outside the scope of IFRS 16.

Pursuant to IFRS 16.C12, a reconciliation as at 31 December 2018 between the minimum lease liability under IAS 17 and the amount of the lease liability to be recognised according to IFRS 16 has to be disclosed. In note [19] of this annual report it is disclosed that the existing obligations under operating leases amounted to €134 million as at year-end 2018. The difference between the operating lease liability of €134 million as at year-end 2018 and the expected recognition of €59 million as at 1 January 2019 under IFRS 16 is largely explained by the fact that the lease obligations for contracted leases where the actual right of use of the assets concerned do not commence until after 1 January 2019, are included in the lease obligations disclosed under the previous standard.

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.

The 'Other information' section of this annual report contains a list of the associates and joint arrangements.

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

2018

Effective 1 June 2018, the entire share capital of Allego was sold to Meridiam, a French investment company specialised in the development, financing and management of long-term and sustainable infrastructure projects. Meridiam also obtained full control of Allego and its subsidiaries with effect from this date.

On 31 July 2018, Alliander increased its interest in Locamation B.V. (58%) to 100%. The purchase price was €1.5 million. However, in view of the present trend in results, this amount was expensed immediately.

2017

There were no changes in the consolidation in 2017.

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. The reconciliation with the reported figures is given in note [2].

Alliander distinguishes the following segments:

- Network operator Liander;
- Other.

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.

Translation of transactions and balance sheet items in foreign currencies

Amounts of transactions in foreign currencies are converted into the functional currency at the applicable exchange rate at the 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.

Currency translation differences on monetary investments in bonds are recognised in income when they relate to the translation of the amortised cost in foreign currency. All other translation differences are recognised in equity.

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.

A similar calculation is only performed in the case of all other non-current assets if warranted by events or changes in circumstances (triggering event analysis). The results of this calculation 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.

There was no change in the composition of the cash-generating units in 2018.

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. A discontinued operation is an activity of material significance which has been either discontinued or classified as held for sale. The results from discontinued operations comprise the results for the entire financial year up to the up to the close of the year. The comparative figures are restated in this case.

Tangible fixed assets

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

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

The tangible fixed assets are 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.

Changes in expected useful lives

There were no changes in estimates of expected useful lives in 2018 or 2017.

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 or associates 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 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 at the net present value of the future cash flows. Amortisation is calculated over the average period of the purchased contracts.

Financial assets

Classification and recognition

Financial assets – mostly investments in loans and shares – are classified into the categories described hereafter. 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. The category in which a financial asset is placed and measured depends on:

- the entity's business model for managing the financial assets
- and the contractual cash flow characteristics of the financial asset.

A financial asset is measured at amortised cost if both of the following conditions are satisfied:

- the financial asset is held as part of the business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is recognised at fair value through other comprehensive income if both of the following conditions are satisfied:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset must be recognised at fair value through profit or loss unless, in accordance with the above paragraphs, it is recognised at amortised cost or at fair value through other comprehensive income.

On initial recognition, a financial asset is measured at fair value plus, in the case of a financial asset that is not recognised at fair value through profit or loss, the transaction costs directly attributable to the acquisition or issue of the financial asset.

Alliander does not employ any business models where the aim is achieved both by receiving contractual cash flows and by selling financial assets. Alliander's financial assets are therefore measured after initial recognition either at amortised cost or at fair value through profit or loss.

If the fair value of financial assets measured at amortised cost 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.

Impairments

A loss allowance is recognised for expected credit losses on financial assets that are measured at amortised cost or recognised at fair value through other comprehensive income. Calculation of the impairment is based on the expected loss. This is assessed periodically. The general approach is that of the expected credit loss (ECL) model, which involves determining the 12-month expected credit loss. In the event of a significant increase in the credit risk on a financial asset, the lifetime expected credit loss is recognised.

The amount of the expected credit loss (or reversals) that is required to adjust the compensation for losses as at the reporting date is recognised as an impairment gain or loss in the income statement.

Derivatives and hedge accounting

Derivatives are measured at fair value. The fair values are either derived from quoted prices in active markets or obtained from recent market transactions of a similar nature or calculated using valuation methods such as discounted cash flow models and option valuation models when there is no active market for the instruments.

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 own-use by the company

Alliander may use energy commodity contracts for physical purchases of electricity and green certificates (renewable energy certificates – RECs) for network losses occurring in the distribution of electricity. For these contracts, 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 accounting

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:

- Cash flow hedging: 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 reserve 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;
- Fair value hedging: 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 derivates 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.

At the start of a hedging relationship, and subsequently on an ongoing basis, an assessment is made to establish whether the hedging relationship satisfies the hedge effectiveness requirements. If a hedging relationship ceases to satisfy the hedge effectiveness requirements but the risk management objective of the hedging relationship is unchanged, rebalancing takes place by changing the terms of the hedging relationship in such a way that it again satisfies the criteria. This rebalancing is processed administratively as a continuation of the hedging relationship. Upon rebalancing, the hedge ineffectiveness of the hedging relationship is calculated and recognised.

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 and energy-related installations. 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. To calculate the credit losses to be recognised in respect of outstanding receivables for operating leases, the simplified approach for trade receivables and contract assets is used. See also the policies for trade and other receivables.

Finance leases

Alliander has entered into a finance lease for a heat transport pipeline. Risks and rewards incidental to ownership of the assets concerned are entirely or almost entirely, transferred to the lessee.

Finance lease receivables are included in other financial assets. The finance benefits over the lease period from finance leases are recognised through the income statement as finance income. For the determination of the credit losses to be recognised in respect of outstanding receivables for finance leases, the accounting policy for impairments on financial assets applies.

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 for the default risk. To calculate the amount, the simplified approach for trade receivables and contract assets is used, with the expected credit losses estimated on the basis of experience.

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 from customers in connection with investments in the electricity and gas infrastructure for the provision of connection and distribution services are recognised in the balance sheet as contract liabilities (deferred income). Deferred income is amortised over the expected useful lives of the assets involved. The amortisation is recognised through the income statement as revenue.

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. The amortisation is recognised 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 due for 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 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 amount of the provision is measured at the best estimate of the amount needed to settle 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.

Income recognition

A distinction is made between revenue and other income. All income from contracts with customers is recognised as revenue and all remaining income as other income. Income is measured on the basis of the performance obligations in the contract with the customer. This excludes amounts received on behalf of third parties. The income is recognised at the moment control of the product or service is transferred.

In assessing the customer contracts, separate portfolio-based approaches are used for matters such as the connection, transport and metering services of the distribution system operating activities. Customer contracts for these services are entered into indefinitely, with the customer paying an investment contribution at the inception of the contract, followed by periodical payments for the service provided. The provision of these services concerns performance obligations satisfied over time. The related revenue is recognised over the period in which the customer receives the service. The upfront investment contribution concerns a payment for a performance obligation to be satisfied over the duration of the contract by providing the connection and distribution service. The contribution received is recognised in the balance sheet as a performance obligation to be satisfied – deferred income – which is amortised over the useful life of the assets concerned.

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, on the one hand, fixed components, referred to as the capacity tariff and, on the other hand,
 the amortisation of the deferred income from customers. Also included 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, the service component of leased installations and maintenance of complex energy infrastructures.

Other Income

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

- rental income (the lease component of rented assets);
- amortisation of government and investment grants recognised as liabilities; for details, reference is made to the relevant accounting policies;
- results on the disposal of property, plant and equipment, 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 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

There were no new business combinations of material importance in either 2018 or 2017.

Note 2 Segment information

Alliander distinguishes the following reporting segments in 2018:

- Network operator Liander;
- 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 forms the largest company within the Alliander group and is responsible for providing gas and electricity connections and for distributing gas and electricity in Gelderland and parts of Noord-Holland, Flevoland, Friesland and Zuid-Holland and is with over 85% of the revenue the largest business unit of Alliander.

The Other segment covers the entirety of the other operating segments within the Alliander group, such as the activities of Qirion, Stam and Alliander AG, new activities, the corporate staff departments and the service units. Qirion 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. Established as well as new activities include targeted investments in the infrastructure for electric vehicles, sustainable area development and sustainable housing. The corporate staff departments and service units include Shared Services and IT, which perform activities on behalf of Liander among others. 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.

Except for the corporate staff and service units, the business of the other operating segments exhibits similar characteristics, depending on the nature of the products and services and the nature of the production processes, viz.: supply, construction, management and maintenance of energy-related products and services. Given the scale of these other operating segments, other characteristics in the sense of customers and distribution channels are not relevant segment reporting distinctions. Furthermore, these operating segments have been aggregated in the Other segment since none of them satisfies the quantitative criteria that would qualify them as separate 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.

A statement showing the primary segmentation analysis is presented below, including reconciliation with the reported figures.

Notes

The external revenue of Liander mainly comprises income from energy transport, connection and metering services. In the Other segment, external revenue mainly derives from the services provided by Qirion, new activities 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. These internal supplies are made at cost.

Primary Segmentation

€ million	Network Lian	der	Oth		Elimin		То		Reclassif reporte incident	ed and al items	Repo	
Income statement	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Operating income External revenue Internal revenue	1,772 10	1,681 5	191 313	159 331	- -323	- -336	1,963	1,840	105	-	2,068	1,840
Total income	1,782	1,686	504	490	-323	-336	1,963	1,840	105	-	2,068	1,840
Operating expenses Purchase costs and costs of subcontracted work Operating expenses Depreciation and impairment Own work capitalised	484 703 327 -177	444 713 317 -161	73 463 82 -64	68 474 79 -67	-133 -190 -	-110 -226 -	424 976 409 -241	402 961 396 -228	- 3 -	- 4 - -	424 980 409 -241	402 965 396 -228
Total operating expenses	1,337	1,313	554	554	-323	-336	1,568	1,531	3	4	1,572	1,535
Operating profit	445	373	-50	-64	-	-	395	309	102	-4	496	305
Finance income Finance expense Share in results of associates and joint	10 -92	17 -104	83 -47	149 -105	-73 73	-99 99	19 -66	67 -110	-	-	20 -66	67 -110
ventures after tax Tax	-117	1 -72	28	8	-	-	-90	9 -69	- -29	1	-119	9 -68
Profit after tax from continuing operations	249	215	14	-9	-	-	261	206	73	-3	334	203
Segment assets and liabilities Total assets Non-consolidated investments in associates Non-consolidated investments in joint ventures	7,413 3	7,140 2	3,157 1	3,147 1	-2,225 - -	-2,218 - -	8,345 4	8,069 3	-	- - -	8,345 4	8,069 3
Liabilities (non-current and current)	4,941	4,706	2,077	2,088	-2,802	-2,668	4,216	4,126	-	-	4,216	4,127
Other segment items Investments in property, plant and equipment Number of permanent staff at year-end	660 3,064	565 3,014	72 2,605	101 2,741	- -	- -	731 5,669	666 5,755	-	-	731 5,669	666 5,755

The profit after tax for 2018, like that for 2017, is almost entirely attributable to the shareholders of Alliander N.V..

Reclassification to reported and incidental items

In 2018 there are some incidental items in the column headed 'Reclassification to reported items and incidental items'. The incidental item in the other income stems from the book profit on the disposal of Allego (\le 105 million) in 2018 [Note 22].

Out of the incidental expenses included in operating expenses, \in 9 million (2017: \in 4 million) relates to reorganisation costs. Offsetting this is an amount of \in 5 million in connection with the impact of the labor agreement reached in December.

The tax included in the incidental items is the effects of the exceptional operating expenses and a change in the rate of corporate income tax. The book profit on the sale of Allego qualifies for the substantial-holding privilege.

Segment assets

The amounts in the eliminations column against total assets mainly concern the eliminations of the investments in the subsidiaries of Alliander. 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.

Product segmentation

In compliance with IFRS 15, the following table discloses revenue according to distinct products (product segmentation).

€ million		Segmentation of consolidated revenue by product						
					Metering Service, small	Metering Service, small		
		TAD	Transport	Connection	consumers,	consumers,		
	Total	Elektriciteit1	Service, Gas	Service, Gas	Electricity	Gas	Other activities	
Revenue 2018	1,920	1,154	326	99	93	63	185	
Revenue 2017	1,797	1,108	318	81	71	50	169	

Seasonal influences

Alliander's results are not materially affected by seasonal influences.

Geographical segmentation

	External	revenue	Property, plant	and equipment	Intangibl	le assets	Non-consolida and joint	ted associates ventures
€ million	2018	2017	2018	2017	2018	2017	2018	2017
Netherlands	2,021	1,797	7,025	6,729	288	290	4	3
Rest of the world	47	43	49	64	25	27	-	-
Total	2,068	1,840	7,074	6,793	313	317	4	3

^{&#}x27;Rest of the world' relates entirely to the activities in Germany.

Note 3 Property, plant and equipment

€ million	Land and buildings	Networks	Other plant and equipment	Assets under construction	Total
As at 1 January 2017					
Historical cost	244	9,886	1,637	219	11,986
Accumulated depreciation and					
impairment	-93	-4,436	-928	-	-5,457
Carrying amount as at 1 January 2017	151	5,450	709	219	6,529
Movements in 2017					
Investments	-	372	157	137	666
Divestments	=	-24	-15	-	-39
Depreciation	-8	-245	-110	-	-363
Reclassifications and other movements	29	63	64	-156	-
Total	21	166	96	-19	264
As at 31 December 2017					
Historical cost	273	10,242	1,771	200	12,486
Accumulated depreciation and					
impairment	-101	-4,626	-966	-	-5,693
Carrying amount as at 31 December 2017	172	5,616	805	200	6,793
Movements in 2018					
Investments	-	417	167	147	731
Divestments	-3	-14	-16	-	-33
Depreciation	-11	-251	-111	-	-373
Reclassifications and other movements	4	76	45	-125	-
Deconsolidations	=	-	-44	-2	-46
Total	-10	228	41	20	279
As at 31 December 2018					
Historical cost	265	10,682	1,807	220	12,974
Accumulated depreciation and			.		
impairment	-103	-4,838	-959	-	-5,902
Carrying amount as at 31 December 2018	162	5,844	848	220	7,072

Capital expenditure

Capital expenditure on property, plant and equipment totalled €731 million (2017: €666 million).

Divestments

Divestment in 2017 and 2018 related to decommissioning of network and other assets. In 2017, this included the sale of the high voltage network in the central Netherlands (€6 million).

Discontinued consolidations

The discontinued consolidations relate to the property, plant and equipment of Allego.

Cross-border lease transactions

In the period 1998 to 2000, subsidiaries of Alliander N.V. 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 2018. The three 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 2022 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.

The total net carrying amount of the networks covered by cross-border leases at year-end 2018 was approximately €650 million (year-end 2017: €600 million). At the end of 2018, a total of \$ 2,786 million (2017: \$ 2,781 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, these are not regarded as assets and liabilities of Alliander and the respective amounts are not recognised in the consolidated financial statements of Alliander. The investments in securities 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 2018, 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 \$ 200 million (2017: \$ 186 million). The strip risk is affected to a large extent by market developments.

In connection with the implementation of the Independent Network Operation Act, the heating networks belonging to Liander Infra 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 2018 was €90 million (2017: €93 million).

Note 4 Intangible assets

€ million	Goodwill	Other intangible assets	Total
As at 1 January 2017			
Historical cost	477	33	510
Accumulated depreciation and impairment	-188	-3	-191
Carrying amount as at 1 January 2017	289	30	319
Movements in 2017			
Depreciation		-2	-2
Total	-	-2	-2
As at 31 December 2017			
Historical cost	477	33	510
Accumulated depreciation and impairment	-188	-5	-193
Carrying amount as at 31 December 2017	289	28	317
Movements in 2018			
Depreciation		-2	-2
Total	-	-2	-2
As at 31 December 2018			
Historical cost	477	33	510
Accumulated depreciation and impairment	-188	-7	-195
Carrying amount as at 31 December 2018	289	26	315

There were no investments in intangible assets in 2018 or 2017. The amortisation charge of \le 2 million mainly relates to the intangible assets of 450connect.

Goodwill allocation by segment

€ million	2018	2017
Liander Other	286	286
Other	3	3
Total	289	289

Of the total amount of goodwill allocated to Liander as at year-end 2018, \leqslant 209 million (2017: \leqslant 209 million) relates to electricity and gas networks and dates from the contribution of the networks when n.v. Nuon was created in 1999. Of the remainder, amounting to \leqslant 77 million (2017: \leqslant 77 million), \leqslant 61 million relates to the purchase of Endinet in 2010, \leqslant 7 million to Stam and \leqslant 9 million to the purchase of AEF B.V. in 2016. The goodwill item in the other line concerns the investment relating to 450connect.

At year-end 2018, impairment tests were performed on the carrying amounts of the networks of Liander 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 2018 reporting period, Liander used a pre-tax discount rate of 6.9% (2017: 5.1%). From 2019 onwards, the figure will drop to 4.5% up to 2022. 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.

As regards the networks in Germany, the discount rate used has been arrived at using the calculation method adopted by the German regulator, which gives a pre-tax discount rate of 5.1% in 2018 (2017: 5.1%). For the period 2019-2022, the rate remains 5.1%. Otherwise the underlying assumptions were the same as for Liander.

Note 5 Investments in associates and joint ventures

	Assoc	ciates	Joint ve	entures	To	tal
€ million	2018	2017	2018	2017	2018	2017
Carrying amount as at 1 January	1	6	2	3	3	9
Movements						
Divestments	=	-2	=	-	-	-2
Share in results	4	-3	-	1	4	-2
Dividend and other movements	-3	-	-	-2	-3	-2
Total	1	-5	-	-1	1	-6
Carrying amount as at 31 December	2	1	2	2	4	3

In 2018, Alliander purchased the remaining interest (42%) in the joint venture Locamation, making Locamation a whollyowned subsidiary. Also in 2018, Plugwise Holding B.V. was wound up.

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 arrangements in the 'Other information' part of the report. 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	Assoc 2018	ciates 2017	Joint ve 2018	entures 2017	Comprehen 2018	sive income 2017
Share in Profit or loss from continuing operations Profit or loss from discontinued operations Other comprehensive income	3 -	-3 - -	- - -	1 -	3 -	-2 - -
Comprehensive income	3	-3	-	1	3	-2

Alliander has concluded arrangements with associates and joint ventures for granting finance and credit facilities totalling €30 million as at year-end 2018 (2017: €37 million). Under these facilities, an amount of €23 million was drawn down as at 31 December 2018 (2017: €22 million). The arrangements include convertible loans of €1 million (2017: €3 million). Additionally, as at year-end 2018, there was also a receivable under this heading amounting to €17 million in relation to an overdraft facility (2017: €25 million). The loans and accrued interest and repayments in the case of one entity have been written off. The pledge obtained on a loan granted in 2014 stood at €2 million as at 31 December 2018 (2017: €2 million).

Note 6 Investments in bonds

Carrying amount as at 31 December 2017	193
Movements in 2018	
Currency translation differences	8
Value adjustment due to IFRS 9, including expected credit loss	-45
Value adjustment due to IFRS 9, including expected credit loss Total	
Total	-37
Carrying amount as at 31 December 2018	156

Investments in bonds as at year-end 2018 comprises investments in a debt instrument issued by a large financial institution which serves to cover obligations arising from two cross-border lease contracts (2017: \leq 193 million). The carrying amount of the related lease obligations was \leq 156 million at year-end 2018 (2017: \leq 148 million).

With the application of IFRS 9 in 2018, the bond investments item underwent a change in the recognition and measurement of the assets concerned. Given the business model, i.e. 'hold to maturity', the bonds are carried at amortised cost under IFRS 9. This change means that the carrying amount of the bonds was reduced by \in 43 million, charged to other reserves. The original recognition in equity of a revaluation reserve of \in 38 million and the associated deferred tax of \in 13 million ceases to apply, this change likewise being accounted for in other reserves; This resulted in a net increase in other reserves of \in 8 million, recognised in the opening balance as at 1 January 2018. The impact of the new impairment model was analysed and the result is a write-down of \in 2 million (2017: nil). Together with the movement of \in 43 million connected with the change in the basis of measurement, this makes up the changes in carrying amount due to IFRS 9, including credit losses, totalling \in 45 million.

Note 7 Other financial assets (including current portion)

€ million	Loans, receivables and other
Carrying amount as at 1 January 2017	53
F// 12 1 2 1 2 2 2 2 2 2 2 2 2 2 2 2 2 2	
Effective interest rate 2017	1%
Movements in 2017	
Loans granted	50
Loans and interest repaid	-61
Writedown on loan to associate	
Total	-12
Carrying amount as at 31 December 2017	41
Effective interest rate 2018	1%
Movements in 2018	
Loans granted	40
Loans and interest repaid	-10
Investments	1
New consolidation	-1
Total	30
Carrying amount as at 31 December 2018	71
• •	
Non-current portion of other financial assets	71
Current portion of other financial assets	-

The loans granted in 2018 include a receivable from Meridiam amounting to €26 million. For further disclosures, reference is made to note [22].

The carrying amount of the other financial assets as at year-end 2018, in addition to the above item, was made up of a long-term receivable of €18 million from the City of Amsterdam relating to the Spaklerweg site and other receivables, loans and capitalised costs denominated in euros.

The loans granted and repaid in 2018 and 2017 were also mainly in the form of short-term deposits.

Note 8 Derivatives

€ million	Current 2018	assets 2017	Non-curre 2018	ent assets 2017	Short-tern 2018	n liabilities 2017	Non-currer 2018	nt liabilities 2017
Foreign exchange contracts	-	-	-	-	-	2	-	-
Carrying amount as at 31 December	-	-	_	_	_	2	_	-

Derivatives are measured at fair value.

Financing was raised in 2018 under the Euro Commercial Paper Programme, denominated in foreign currency. In order to avoid the currency risk, the foreign currency was immediately converted into euros using FX swaps. As at year-end 2018, the derivative instruments were settled, bringing the carrying amount to nil (2017: €2.2 million).

Note 9 Inventories

€ million	2018	2017
Raw materials and consumables	33	36
Finished goods	33	38
Carrying amount as at 31 December	66	74

The impairment of inventories in 2018 was €1 million (2017: €5 million).

Note 10 Trade and other receivables

€ million	2018	2017
Trade receivables	83	82
Impairment of trade receivables	-9	-10
Trade receivables	74	72
Corporate income tax	26	39
Other receivables	54	55
Prepayments and accrued income	195	176
Carrying amount as at 31 December	349	342

At the end of 2017, impairment of trade receivables totalled ≤ 9 million (2016: ≤ 10 million). The impairment loss on trade receivables recognised in the income statement in 2018 amounted to ≤ 2 million (2017: ≤ 1 million). For further information, see the credit risk section of note [34].

The other receivables include an amount of €17 million (2017: €22 million) owed by the non-controlling interest Reddyn.

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 periodic payments made to the holders of the bonds issued in 2010 would count as deductible interest expense 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. In the appeal proceedings, the District Court at Arnhem declared Alliander's appeal well-founded in a ruling dated 20 December 2016. The case was taken to the Arnhem-Leeuwarden Court of Appeal that upheld the District Court's decision in a ruling given on 12 June 2018. The Dutch Tax & Customs Administration is seeking to have the Appeal Court ruling overturned in cassation by the Supreme Court.

In 2016 and 2017, assessments for corporate income tax were imposed in respect of the period 2010-2013 which did not allow for the above deductible interest expense. Based on the advice of external consultants, the Management Board decided to recognise a receivable in respect of the disputed corporate income tax paid. A similar question hangs over the withholding tax payable on dividends. No withholding tax assessments (final or provisional) have been paid. Again, having consulted outside experts, the Management Board decided not to recognise a provision in this respect. As at year-end 2018, the total maximum exposure for Alliander including interest, was €38 million.

Note 11 Cash and cash equivalents

€ million	2018	2017
Cash held at banks	80	36
Deposits	60	65
Carrying amount as at 31 December	140	101

The effective interest rate on cash and cash equivalents ranged from -0.54% to -0.41% (2017: -0.55% to -0.43%). Cash and cash equivalents are held almost entirely in euros. In 2018, there were amounts of cash and deposits which were not at the unrestricted disposal of Alliander. This concerns a blocked bank account with a balance of €1 million (2017: €1 million).

Note 12 Equity

Authorised capital

The company's authorised capital is divided into 350 million shares of €5 nominal value. As at year-end 2018, 136,794,964 shares were in issue (2017: 136,794,964).

Subordinated perpetual bond loan

On 29 January 2018, Alliander announced the intention to issue a new subordinated perpetual bond loan. At the same time, an offer was made for all the outstanding bonds of the €500 million perpetual bond loan bearing the coupon interest rate of 3.25% issued on 27 November 2013, conditional upon the successful issue of the new loan. Subsequently, on 30 January, €500 million in new subordinated perpetual bonds was successfully issued at a coupon rate of 1.625% and an issue price of 99.144%. By the offer closing date of 5 February, applications were found to have been received from investors for repurchase by Alliander of bonds totalling approximately €413 million from the 2013 issue. The remaining portion of the loan issued in 2013 was redeemed on 27 November 2018. The carrying amount of the hybrid instrument as at 31 December 2017 was €496 million. As a result of this transaction, including paid surplus and expenses, equity has decreased by €1 million.

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 €8 million.

Revaluation reserve

The revaluation reserve is connected with the bond investments. Following the implementation of IFRS 9, the revaluation reserve ceased to be applicable with effect from 1 January 2018.

Other

The other reserve includes an amount of €1 million after tax relating to a defined-benefit pension plan for employees of our activities in Germany. 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%) to construct a heat transport pipeline from the regional waste-to-energy plant Afvalverwerking Regio Nijmegen (ARN) to the district heating network of Nuon Energy. As at the end of the reporting period, the shareholders' equity of Indigo BV amounted to €3.8 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. In 2016, Alliander acquired a 95% interest in Warmtenet Hengelo B.V., a company which is developing a district heating system, the first phase of which was commissioned in 2017. The shareholders' equity of this company as at year-end 2018 amounted to €0.3 million negative. In 2017, Alliander acquired a 75% interest in Warmte-Infrastructuur Limburg Geothermie B.V. As at the end 2018, the shareholders' equity of this company amounted to €2.3 million. However, the amount of these non-controlling interests, means that they are not visibly accounted for on the face of the balance sheet as at year-end 2018

Note 13 Interest-bearing debt

The movements in new loans and loan repayments during the year resulted in cash flows; the currency translation differences and other movements did not result in cash flows during the year.

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

€ million	2018	2017
Carrying amount as at 1 January	1,784	1,564
Movements		
New loans	854	1,156
Loans repaid	-841	-903
Currency translation differences		-33
Total	12	220
Carrying amount as at 31 December	1,796	1,784

Short and long-term interest-bearing debt

	Effective in	terest rate	Current	portion	Non-curre	ent portion
€ million	2018	2017	2018	2017	2018	2017
Subordinated loans	8.5%	8.6%	7	6	65	70
Private and green loans	1.4%	1.3%	-	-	312	87
Euro Medium Term Notes	2.6%	2.6%	300	-	1,096	1,395
Euro Commercial Paper	0.0%	0.7%	-	225	-	-
Other	0.0%	0.0%	14	-	2	1
Carrying amount as at 31 December			321	231	1,475	1,553

Short-term interest-bearing debt, amounting to €307 million as at year-end 2018 (2017: €231 million), is made up of the current portion of the long-term debt (€7 million) and a bond loan that is due for redemption (€300 million).

As at year-end 2018, a carrying amount of €1,396 million (face value €1,400 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 2018, no short-term finance had been raised under the ECP programme (2017: €225 million).

In July 2017, Alliander secured a loan from the European Investment Bank on favourable terms. The amount of the loan is €300 million and it was drawn down in three tranches. The first tranche of €75 million in 2017 and the remaining €225 million were drawn in two tranches during 2018. The loan becomes repayable in full in 2031.

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	2018	2017
Less than 1 year	321	231
Between 1 and 2 years	7	305
Between 2 and 3 years	9	8
Between 3 and 4 years	407	8
Between 4 and 5 years	=	408
Over 5 years	1,052	824
Carrying amount as at 31 December	1,796	1,784

Note 14 Deferred income

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).

€ million		2018			2017	
	Contributions	Subsidies	Total	Contributions	Subsidies	Total
Carrying amount as at 1 January	1,608	21	1,629	1,594	3	1,597
Contributions received	130	_	130	83	20	103
Amortisation recognised as income	-68	-2	-70	-69	-2	-71
Deconsolidations	-3	-4	-7	-	-	-
Carrying amount as at 31 December	1,667	15	1,682	1,608	21	1,629

Note 15 Provisions for employee benefits

	Current	portion	Non-curre	nt portion	To	tal
€ million	2018	2017	2018	2017	2018	2017
Long-term employee benefits						
Post-employment benefits	-	-	2	2	2	2
Other long-term employee benefits	10	12	23	40	33	52
Termination/reorganisation benefits	5	5	8	7	13	12
Total	15	17	33	49	48	66
Short-term employee benefits Short-term employee benefits	27	16	-	-	27	16
Carrying amount as at 31 December	42	33	33	49	75	82

Post-employment benefits

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 2018 was 103.8% and the pension contribution rate in 2018 was 22.9% of pensionable salary. With effect from 1 January 2019, the contribution rate for the retirement and dependants' pension rises to 24.9%. In 2016, ABP announced a long-term policy on the level of contributions, involving a gradual increase in contributions, commencing in 2017. The increase in 2019 is part of this policy.

Alliander's relative share in the ABP pension scheme based on numbers of participants is approximately 0.5%. The pension contributions payable for the multi-employer plans in 2019 are expected to total €73 million (of which an expected €54 million will be borne by the company).

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. The post-employment benefits provision totalled €2 million at the end of 2018 (2017: €2 million), made up as follows:

	Current	portion	Non-curre	ent portion	Тс	otal
€ million	2018	2017	2018	2017	2018	2017
Liability for pensions and post-employment healthcare insurance for retired employees	-	-	2	2	2	2
Actuarial value of obligations as at 31 December	-	-	2	2	2	2

Other long-term employee benefits

	Current	t portion	Non-curre	ent portion	To	otal
€ million	2018	2017	2018	2017	2018	2017
Long-service benefits	1	3	14	31	15	34
Long-term sickness leave and disability benefits	6	5	7	7	13	12
Unemployment benefits	3	4	2	2	5	6
Carrying amount as at 31 December	10	12	23	40	33	52

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

- 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;
- Long-service benefits; these are built up in advance through this provision for all Alliander permanent staff. The Network Operators reached agreement with the unions on a new CLA at the end of 2018. Part of the new agreement involves a change to the long-service benefits scheme. In fact, the existing long-service benefits payable at 10, 20, 30, 40 and 50 years of service and the proportionate long-service benefits scheme are being discontinued. Furthermore, the benefit payable on retirement (1.5 times monthly salary) ceases at the end of 2019. The revised long-service benefits scheme covers long-service benefits payable on attaining 25 and 40 years of service. In addition, employees born before 1 January 1963 (aged 57 or older) and in the company's employment on 31 December 2019 retain their right to the benefit on retirement. Also, the 50-year long-service benefit will continue for five years as from 1 January 2020.

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 2018, an amount of €12 million was added to the reorganisation provision (2017: €10 million). The provision for termination payments/reorganisations totalled €13 million at the end of 2018 (2017: €12 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 benefits/ restructuring provision	Total
Carrying amount as at 1 January 2017	2	51	18	71
Movements in 2017				
Released	-	-	-4	-4
Added	-	12	10	22
Benefits paid		-11	-12	-23
Total	-	1	-6	-5
Carrying amount as at 31 December 2017	2	52	12	66
Movements in 2018				
Changes to long-service benefit scheme	-	-9	-	-9
Released	-	-	-3	-3
Added	-	8	12	20
Benefits paid	-	-11	-8	-19
Reclassified to short-term liabilities		-7	-	-7
Total	-	-19	1	-18
Carrying amount as at 31 December 2018	2	33	13	48

The revised long-service benefits scheme agreed under the new Network Operators CLA results in the release of €9 million. It was also agreed in the new CLA that the years elapsing between the previous long-service milestone reached and the next milestone will be surrendered pro rata in December 2019. The amount of the accumulated rights as at year-end 2018, totalling €7 million, has been reclassified as short-term liabilities.

Assumptions

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

	2018	2017
	AG2018 Mortality Table/start	AG2016 Mortality Table/start
Mortality tables	year = 2019	year = 2018
Discount rates	-0.19% - 1.21%	-0.4% - 1.26%
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 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, which at year-end 2018 amounted to €27 million (2017: €16 million). The increase of €11 million concerns the €7 million in accumulated long-service benefit rights to be paid at year-end 2019 in accordance with the agreements in the new Network Operators CLA. It was further agreed in the new CLA that the paid leave in excess of the statutory minimum over and above the overtime limit will be discontinued. Employees with a leave entitlement in excess of the overtime limit and still in the company's employ as at 31 December 2019 will receive a one-off payment for surrendering these rights. The total cost of this change is €4 million.

Note 16 Other provisions

Other provisions

€ million	Other provisions
Carrying amount as at 1 January 2017	5
Movements in 2017	
Added	2
Total	2
Carrying amount as at 31 December 2017	7
Movements in 2018	
Added	7
Utilised	-4
Total	3
Carrying amount as at 31 December 2018	10

The other provisions as at year-end 2018 amounted to €10 million (2017: €7 million) and related to loss-making contracts and a provision for soil remediation.

Note 17 Deferred tax

The deferred tax item is made up as follows:

Deferred tax assets

€ million	2018	2017
Differences in valuation of property, plant and equipment	169	213
Other	3	-8
Carrying amount as at 31 December	172	205

This item is made up of the differences between the reported carrying amounts of the items of property, plant and equipment and other balance sheet items, including investments and provisions, and the corresponding tax bases.

Gross movement in deferred tax assets

€ million	Property, plant and equipment	Other	Total
Carrying amount as at 1 January 2017	227	-11	216
Movements in 2017			
Added directly via equity	=	3	3
Realised temporary differences	14	-	-14
Total	-14	3	-11
Carrying amount as at 31 December 2017	213	-8	205
Movements in 2018			
Added directly via equity	-	13	13
Realised temporary differences	-16	-1	-17
Change in corporate income tax rate	-28	-1	-29
Total	-44	11	-33
Carrying amount as at 31 December 2018	169	3	172

The deferred tax assets of €169 million in respect of property, plant and equipment (2017: €213 million) are the result of differences between the carrying amounts in the financial statements and the tax bases. Alliander became liable to corporate income tax on 1 January 1998 and the item of deferred tax arose on that date. The carrying amounts of the property, plant and equipment agreed with the Dutch Tax & Customs 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. In addition, the item Property, plant and equipment deferred tax refers to the general overhead surcharge that has been capitalised for tax purposes, the effects of implementing IFRS accounting policies in 2005 and the arbitrary amortisation tax break allowed in the past.

The decrease of €33 million in the amount of the deferred tax assets in 2018 has largely been recognised in the income statement (€46 million loss) and is partly accounted for by movements recognised directly in equity (€13 million gain). The item relating to the change in the rate of corporate income tax concerns the lowering of the existing 25% tax rate in the Netherlands to 22.55% in 2020 and 20.5% from 2021 onwards.

The deferred tax liabilities as at year-end 2018 stood at \le 4 million (year-end 2017: \le 5 million). This item is accounted for by the net effect of tax loss carryforwards of the 450connect GmbH tax group (deferred tax asset of \le 3 million) and the difference between the reported carrying amount of licences and their corresponding tax base (deferred tax liability of \le 7 million).

As at year-end 2018, there was an unrecognised deferred tax asset of €17 million (year-end 2017: €19 million). This mainly relates to tax loss carryforwards from our activities in Germany which in connection with the projected results in the medium term for the German entities have not been recognised, apart from the losses reported by the entity 450connect GmbH. An amount of €2 million relates to a Dutch subsidiary acquired in 2018. Of the unrecognised losses as at year-end 2017, an amount of €5 million relates to the subsidiaries of Allego outside the Netherlands.

Note 18 Trade and other payables

€ million	2018	2017
Trade payables	96	79
Invoiced instalments on work in progress	6	5
Other payables	48	49
Carrying amount as at 31 December	150	133

The accruals (2018: €244 million; 2017: €257 million) are made up of sufferance tax payable (2018: €115 million; 2017: €114 million), invoices still to be received for costs such as subcontracted work (2018: €75 million; 2017: €79 million) and anticipated amounts in respect of network losses and energy transport costs (2018: €16 million; 2017: €14 million) along with other items.

Note 19 Leases

Finance lease receivables

The receivables in respect of finance leases as at year-end 2018 were as follows:

€ million	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
As at 31 December 2018				
Future minimum lease receivables	=	2	3	5
Unearned finance income	=	-	-1	-1
Present value of finance lease receivables	-	2	2	4
As at 31 December 2017			2	
Future minimum lease receivables	-	1	3	4
Unearned finance income	=	-	-1	-1
Present value of finance lease receivables	-	1	2	3

The receivable relates to a heat transport connection.

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:

€ million	2018	2017
Less than 1 year	23	22
Between 1 and 5 years	61	73
Over 5 years	63	67
Total as at 31 December	147	162

At 31 December 2018, the operating leases related mainly to rental of transformers and the subleasing of two district heating networks to N.V. Nuon Warmte, part of N.V. Nuon Energy.

Lease obligations

Finance lease liabilities

€ million	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
As at 31 December 2018 Future minimum lease obligations Future finance expense on finance leases	11 -12	45 -40	192 -37	248 -89
Present value of finance lease obligations	-1	5	155	159
As at 31 December 2017 Future minimum lease obligations Future finance expense on finance leases	10 -11	49 -44	187 -41	246 -96
Present value of finance lease obligations	-1	5	146	150

Finance lease payables at year-end 2018 and year-end 2017 mainly related to obligations in respect of two cross-border lease transactions (see note [3]). The movements in the finance lease payables in 2018 do not reflect cash flows but are made up of exchange differences totalling \in 9 million and other movements.

Operating lease liabilities

€ million	2018	2017
Less than 1 year	20	28
Between 1 and 5 years	46	60
Over 5 years	68	65
Total as at 31 December	134	153

Alliander has operating lease payables in respect of buildings, spaces, telecommunication interconnections and company cars.

The following table presents the costs for the year connected with operating leases.

Operating lease costs

€ million	2018	2017
Operating leases Additional services	22	23
Additional services	22	19
Total as at 31 December	44	42

The operating leases relate to the net amounts of minimum and contingent lease payments. The additional services relate to the services of maintenance, management, fuel, insurance and so on provided in connection with these contracts.

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	2018	2017
Capital expenditure commitments regarding property, plant and equipment	135	114
Other purchasing commitments	270	269
Total as at 31 December	405	383

Contingent liabilities

On and immediately after the balance sheet date, a number of claims were made against Alliander. Alliander was also involved in a number of lawsuits at the balance sheet date, connected with normal business operations. These claims/ lawsuits could have a material impact on Alliander's results, should the outcome not go in Alliander's favour. Provisions have been recognised as necessary. A number of important considerations are disclosed below.

Liander is involved in legal disputes with a number of municipal authorities relating to sufferance tax. Liander could potentially be reclaiming an amount of €19 million. However, given the uncertainties, these receivables have not been recognised in the balance sheet as at 31 December 2018.

As at year-end 2018, Alliander had issued parent company guarantees amounting to \leqslant 34 million (2017: \leqslant 45 million) and a parent company guarantee of \leqslant 5.2 million (2017: \leqslant 5.2 million) to the non-controlling interest Reddyn. Bank guarantees amounting to \leqslant 0.6 million had been issued on Alliander's behalf as at year-end 2018 (2017: \leqslant 0.4 million). As at year-end 2018, Alliander had issued guarantees totalling \leqslant 27 million to the subsidiary Allego B.V. that was sold off in 2018. Under the terms of the sale and purchase agreement, Alliander is indemnified by the purchaser Meridiam in the event that these guarantees are invoked. The guarantees will shortly be assumed by Meridiam itself.

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 \in 13 million (to be paid in instalments of \in 6 million in 2025 and \in 7 million in 2028). If the option is exercised, conveyance of the property will take place in 2025 and Alliander will continue to have the use of the site until that date. The exercise of the option by the City of Amsterdam at some future date is not expected to affect profit or loss.

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 network operator Liander under which its liability in this respect is restricted to the amount for which it itself 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

€ million	2018	2017
Electricity transport and connection services	1,154	1,108
Gas transport and connection services ¹	425	398
Metering services	156	121
Other revenue'	185	170
Total	1,920	1,797

¹ The implementation of IFRS 15 with effect from 1 January 2018 means that the connection contribution amortisation amounts have been reclassified as revenue rather than other income. The comparative figures for 2017 have been restated.

Revenue for 2018 was up by \le 123 million compared with 2017, at \le 1,920 million. This increase mainly resulted from the growth in the number of electricity connections (\le 12 million) and increases in the transport and connection charges for gas and electricity in the regulated market (\le 93 million).

Note 22 Other income

€ million	2018	2017
Amortisation of subsidies	2	2
Operating contributions and other income ¹	146	41
Total	148	43

¹ The implementation of IFRS 15 with effect from 1 January 2018 means that the connection contribution amortisation amounts have been reclassified as revenue rather than other income. The comparative figures for 2017 have been restated.

Other income in 2018 came in at €148 million (2017: €43 million). The increase in the other income is mainly due to the book profit on the sale of Allego (€105 million) in 2018. Other income is also made up of rents, compensation payments received and miscellaneous income.

Sale of Allego

Effective 1 June 2018, the entire share capital of Allego was sold to Meridiam, a French investment company specialised in the development, financing and management of long-term and sustainable infrastructure projects. Meridiam also obtained full control of Allego and its subsidiaries with effect from this date.

Allego has around 200 employees. Revenue in 2017 amounted to €7 million. In establishing Allego back in 2013, Alliander was one of the first players to introduce electric vehicle charging solutions. Alliander wanted to explore what the impact of electric vehicle charging would be on the grid and to develop solutions for avoiding unnecessary grid investments that would be a burden on society at large. In the past five years, Allego has made an appreciable contribution to the creation of the charging infrastructure both in the Netherlands and beyond, and established an important position in this market. Electric driving is starting to take off. With its new partner, Allego will be in an even better position to embark on the next stage of rapid international growth.

The purchase price is made up of a lump sum and a deferred payment (due 31 December 2023). The fair value of the deferred amount has been calculated at €26 million. The finalised book profit on the transaction is €105 million and this has been accounted for in other income.

Note 23 Purchase costs and costs of subcontracted work

€ million	2018	2017
Grid losses	49	58
Transport capacity and restrictions	191	188
Billing and payment collection	12	10
Contractors, materials and other	172	146
Total	424	402

Note 24 Employee benefit expense

€ million	2018	2017
Salaries	370	357
Social security premiums	44	43
Pension costs:		
- contributions paid to multi-employer plans that are accounted for as defined-contribution plans	53	45
Termination benefit expenses	9	6
Other long-term employee benefits	-1	12
	8	18
Other staff costs	25	22
Total	500	485

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

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

€ million	Multi-employer plans	Termination/ reorganisation benefits	Other long-term employee benefits	Total
2017				
Contributions paid to multi-employer plans	45	-	-	45
Added to provision	=	10	12	22
Released from provision	-	-4	-	-4
Total 2017	45	6	12	63
2018				
Contributions paid to multi-employer plans	52	_	-	52
Added to provision	-	12	8	20
Released from provision	-	-3	-9	-12
Total 2018	52	9	-1	60

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 €137 million (2017: €151 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)

	2018	2017
Employed in continuing operations		
-Average during the year	5,712	5,719
-As at 31 December	5,669	5,755
-Number of permanent staff outside the Netherlands	172	197

WNT

On 1 January 2013 the Act on the Standardisation of Remuneration of Senior Executives in the Public and Semi-Public Sector (WNT) came into operation. The act lays down rules governing the maximum remuneration of senior executives in the public and semi-public sector. The amount is set annually by a ministerial ruling.

WNT reporting

The WNT is applicable to network operator Liander N.V. The WNT requires disclosure of the remuneration of senior executives. Transparency is also required concerning the remuneration of other internal officers whose income exceeds a set level in the reporting period. Liander will be reporting on the WNT requirements applicable to the network operator in a separate annual report to be published in the second quarter of 2019.

Remuneration of the Management Board and the Supervisory Board

The Remuneration Report covers the remuneration policy, its implementation and the remuneration of the members of the Management Board and the Supervisory Board (key management). The three paragraphs concerned can be found in the 'Corporate governance' section of our 2018 annual report. The following tables disclose the remuneration of the members of the Management Board.

Total gross annual remuneration chargeable to the financial year

	Fixed	Fixed salary		
€ thousand	2018	2017		
I.D. Thijssen	222	210 290		
M.R. van Lieshout	281			
P.C. Molengraaf	-	172		
Total	503	672		

¹ Retired 31 August 2017.

The fixed salary concerns the actual amount paid each year; it does not include amounts set aside for other forms of remuneration.

Settlement of contract obligations

With regard to the departure of Mr Van Lieshout, the Supervisory Board acted in accordance with the contractual arrangements with Mr Van Lieshout. Mr Van Lieshout will accordingly receive a payment of €310,000. This amount has been charged to 2018.

Pension contributions

€ thousand	2018	2017
I.D. Thijssen	21	19
M.R. van Lieshout	23	22
P.C. Molengraaf	-	12
Total	44	53

¹ Retired 31 August 2017.

Social security charges and other remuneration elements

€ thousand	2018	2017
I.D. Thijssen	12	12
M.R. van Lieshout	18	26
P.C. Molengraaf	=	18
Total	30	56

¹ Retired 31 August 2017.

In addition to the normal social security charges and contributions applicable to the company, the members of the Management Board are entitled to an employer's contribution to the collective health insurance plan, to contributions connected with their 'personal budget' under the conditions of employment, to an expense allowance and to the use of a company car.

Remuneration of the Supervisory Board

€ thousand	2018	2017
Ms A. Jorritsma-Lebbink, chair	28.4	27.2
Ms A.P.M. van der Veer-Vergeer	18.9	18.1
Ms J.G. van der Linde	18.9	18.1
B. Roetert	18.9	18.1
G.L.M. Hamers	18.9	18.1
Total	104.0	99.6

Note 25 Other operating expenses

€ million	2018	2017
Added to/released from provisions	2	1
Premises and transport	21	26
Rent and leases	40	41
Corporate staff and ICT	69	67
Sufferance tax and other tax	160	143
Other	51	51
Total	343	329

Other operating expenses amounted to \le 343 million in 2018 compared with \le 329 million in 2017. The rise of \le 14 million was mainly due to the increase in sufferance taxes (by \le 17 million). Sufferance tax in 2018 amounted to \le 154 million compared with \le 137 million in 2017. The \le 17 million increase was due to back-levy of tax on the part of several municipal authorities in respect of 2016, 2017 and 2018.

For further disclosures relating to the costs of operating leases, reference is made to note [19]. The auditors' fees were as follows:

Auditors' fees

€ million	2018	2017
Description of services: Audit of the financial statements: Other assurance services	0.7 0.2	0.8 0.2
Total	0.9	1.0

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 audit of the financial statements for 2017 and 2018.

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

The divestments include the accelerated depreciation of decommissioned assets.

€ million	Land and buildings	Networks	Other	Total
2018				
Depreciation	11	251	113	375
Divestments	3	14	17	34
Total 2018	14	265	130	409
2017				
Depreciation	8	245	112	365
Divestments	-	16	15	31
Total 2017	8	261	127	396

Note 27 Finance income

€ million	2018	2017
Interest income on loans and deposits	-	1
Other finance income	11	11
Currency translation differences	9	55
Total	20	67

The other finance income largely concerns the bond investments 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 bond investments related to the cross-border lease obligations [note 6] and the Euro Commercial Paper issued in US dollars.

Note 28 Finance expense

€ million	2018	2017
Loans from third parties	-47	-48
Currency translation differences	-8	-50
Other finance expense	-11	-12
Total	-66	-110

The currency translation differences result from the effect of the movements in the US dollar exchange rates against the euro on the finance lease obligations (note [19]) and the Euro Commercial Paper issued in US dollars.

The other finance expenses mainly related to the finance lease obligations [note 19]. Also included in the other finance expenses are the costs associated with credit facilities.

Note 29 Tax

€ million	2018	2017
Current tax expense	-74	-54
Movement in deferred tax	-45	-14
Total	-119	-68

The recognised tax expense of €74 million is made up of tax charges of €71 million for 2018 and an adjustment of €3 million relating to prior years.

The corporate income tax charge on the taxable profit of the Alliander N.V. tax group for 2018 amounts to \le 65 million. This is the balance of the calculated corporate income tax on the profit for 2018 (\le 69 million) and the calculated corporate income tax on movements in balance sheet items recognised directly in equity (\le 4 million tax credit).

The change in deferred tax, which was down by €45 million, is the net effect of a change in deferred tax assets (€46 million) as well as in deferred tax liabilities (€1 million).

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

%	2018	2017
Enacted corporate income tax rate in the Netherlands	25.0	25.0
Impact of:		
Substantial-holding privilege	-5.8	-
Change in corporate income tax rate	6.5	-
Losses not accounted for	0.5	1.4
Other permanent differences	0.3	-0.7
Effective corporate income tax rate	26.5	25.7

The effective tax rate is the tax burden expressed as a percentage of the profit before tax excluding the profits after tax from associates and joint ventures. The effective tax rate in 2018 amounted to 26.5% (2017: 25.7%). The difference compared with the standard tax rate of 25% is mainly due to the applicability of the substantial-holding privilege (downward effect of 5.8%) and the effect of the changes in the rate of corporate income tax (upward effect of 6.5%). The upward effect of permanent differences (0.3%) concerns various non-deductible expenses. The unrecognised tax losses of our entities outside the Netherlands also influence the effective tax rate (upward effect of 0.5%).

Note 30 Notes to the consolidated cash flow statement

Cash flow from operating activities

The cash flow from operating activities in 2018 amounted to €638 million compared with €454 million in 2017. The increase of €184 million compared with 2017 is largely accounted for by a rise in the operating profit, partly as a consequence of the increase in the regulated tariffs. The change in working capital in 2018 was also an improvement.

Cash flow from investing activities

The cash outflow from investing activities in 2018 was €496 million, compared with €549 million in 2017. The lower cash outflow in 2018 is accounted for by the sale of Allego, partially offset by increased capital expenditure. The contributions towards capital projects received from third parties in 2018 amounted to €126 million, which is €30 million higher than in 2017 (€96 million).

Cash flow from financing activities

The cash flow from financing activities in 2018 amounted to an outflow of €103 million (2017: €148 million inflow). The shift of €251 million in the direction of a cash outflow is mainly the result of repaying ECP finance totalling €224 million in 2018. This is almost matched by the net amount of long-term borrowing. In 2017, there was more short-term and long-term borrowing than repayment of loans overall.

Note 31 Licences

Liander Infra N.V., a wholly-owned subsidiary of Liander, owns 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), this subsidiary has appointed Liander as network operator for their gas and electricity networks for a ten-year period (expiry date: 2 May 2024). Liander N.V. executes the tasks incumbent on it under the E-Act and the G-Act.

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 2018, the remaining shares were held by 77 shareholders, of which one party is a related party and 76 are non-related parties.

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. 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. These associates and joint ventures are consequently designated as related parties.

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

Related party transactions

€ million	2018	2017
Sales of goods and services Associates Joint ventures	- 93	93
Total	93	93
Purchase of goods and services Associates Joint ventures	14 111	12 97
Total	125	109

The transactions involving the Province of Gelderland are not included in these disclosures, owing to the exemption applicable in the case of related parties that are public authorities (IAS24, paragraph 25). There were no material transactions with the Province of Gelderland. There were no material transactions with individuals who qualify as related parties. For disclosures relating to the remuneration of the members of the Management Board, who do qualify as related parties, reference is made to [note 24].

Outstanding accounts with related parties connected with purchase and sale transactions involving related parties are immaterial. As at year-end 2018, Alliander had assets of €21 million (2017: €18 million) in respect of loans granted to related parties and an asset of €17 million in respect of agreed borrowings on current accounts with related parties (2017: €25 million).

Note 33 Assets and liabilities held for sale and discontinued operations

There were no assets and liabilities held for sale or discontinued operations in 2018 or 2017.

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 2018 mainly relate to balance sheet positions in USD. 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 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 2018 related to the assets and liabilities connected with two cross-border lease contracts disclosed in the financial statements.

Liander 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 2018 under the Euro Commercial Paper Programme, denominated in US Dollars (USD). As at year-end 2018, this item amounted to nil (2017: €125 million). The currency translation differences have been recognised through profit or loss and do not affect the equity position.

Currency risk sensitivity analysis

The following important exchange rates were applicable as at the balance sheet date:

Exchange rates

EUR	2018	2017
USD	1.145	1.202
GBP	0.889	0.854

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 2018 or 2017.

Maturity date or earlier contractual interest repricing date

	Effective interest rate	Variable / Fixed	Carrying amounts			
€ million			Less than 1 year	Between 1 and 5 years	Over 5 years	Total
As at 31 December 2018						
Assets						
Investments in bonds and other financial assets	6.2%	Fixed / variable	-	8	148	156
Loans and receivables			4	61	6	71
Cash and cash equivalents		Variable	140	-	-	140
Total assets			144	69	154	367
Loans received						
Subordinated loans	8.5%	Fixed	-7	-23	-42	-72
Private and green loans Euro Medium Term Notes	1.4% 2.6%	Fixed Fixed	-300	-1 -399	-311 -697	-312 -1,396
Euro Commercial Paper	0.0%	Fixed	-	-	-	-1,000
Other		Variable	-14	_	-2	-16
Finance lease liabilities	6.8%	Fixed	1	-5	-155	-159
Total liabilities			-320	-428	-1,207	-1,955
As at 31 December 2017						
Assets						
Investments in bonds and other financial assets	5.3%	Fixed / variable	10	40	143	193
Loans and receivables			3	7	32	42
Cash and cash equivalents		Variable	101	-	-	101
Total assets			114	47	175	336
Loans received						
Subordinated loans	8.6%	Fixed	-6	-29	-41	-76
Private and green loans Euro Medium Term Notes	1.3% 2.6%	Fixed Fixed	-	-2 -698	-85 -697	-87
Euro Commercial Paper	2.6% 0.7%	Fixed	-225	-098	-69/	-1,395 -225
Other		Variable		_	-1	-1
Finance lease liabilities	6.5%	Fixed	1	-5	-146	-150
Total liabilities			-230	-734	-970	-1,934

Sensitivity analysis in relation to fixed-rate assets and liabilities

Alliander does not have any fixed-rate financial assets or liabilities carried at fair value through profit or loss.

Sensitivity analysis in relation to cash flows for variable-rate assets and liabilities

Alliander does not have any variable-rate financial assets or liabilities carried at fair value through profit or loss.

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.

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 and securities. 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 the CBL-related investments, is placed or invested with parties with a credit rating of A or higher. 43% (2017: 70%) 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 quarantees.

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 \$2.8 billion (2017: \$2.8 billion). The carrying amount of the associated bond investments included in Alliander's balance sheet amounts to €156 million (2017: €193 million).

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	2018	2017
Not overdue	35	34
0-30 days	32	25
31-90 days	10	10
91-360 days	3	5
> 360 days	3	8
Carrying amount as at 31 December	83	82

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 (2017: nil).

The other receivables and the prepayments and accrued income do not contain any accounts older than one year.

Movements in the provision for bad debt

The movements in the provision for bad debts relating to trade receivables were as follows:

€ million	2018	2017
Carrying amount as at 1 January	10	12
Utilised (trade receivables written off)	-3	-2
Released from / added to provision	2	-
Carrying amount as at 31 December	9	10

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 2018 Alliander had a committed credit facility of €600 million (up to 28-7-2023). 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 2018, Alliander has an ECP programme totalling €1.5 billion under which a zero amount was outstanding as at year-end (2017: €0.225 billion) and an EMTN programme of €3 billion under which an amount of €1.4 billion was outstanding as at 31 December 2018 (2017: €1.4 billion). 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 (International Swaps and Derivatives Association) and CSAs (Credit Support Annexes).

In 2018, as in the preceding year, Alliander did not receive any margin call requests. During the year, however, Alliander did make margin call requests on various occasions. As at year-end 2018, Alliander held margins totalling €14 million. These amounts are callable on a daily basis by the counterparties, depending on changes in the fair value of the underlying contracts.

Liquidity risk 2018 and 2017

	Carrying	Contractual cash flows			
€ million	amount	Less than 1 year	1 - 5 years	Over 5 years	Total
As at 31 December 2018					
Loans received					
Principal amounts Interest	-1,796	-321 -47	-425 -117	-1,058 -296	-1,804 -460
Finance lease liabilities	-159	-11	-45	-192	-248
Accounts payable	-164	-164	-	-	-164
Other payables	-368	-368	-	-	-368
Off balance sheet commitments Operating lease liabilities	-	-20	-46	-68	-134
Total	-2,487	-931	-633	-1,614	-3,178
As at 31 December 2017					
Loans received					
Principal amounts Interest	-1,784	-231 -47	-731	-789	-1,751
Finance lease liabilities	-150	-47 -10	-129 -49	-288 -187	-464 -246
Accounts payable	-132	-132	-	-	-132
Other payables	-368	-368	-	-	-368
Off balance sheet commitments Operating lease liabilities	-	-28	-60	-65	-153
Total	-2,434	-816	-969	-1,329	-3,114

Measurement of fair value

The following table lists the financial instruments measured at fair value in descending order of the fair value hierarchy. A CBL asset, the amount of which was measured at fair value as at year-end 2017, has been measured at amortised cost with effect from 2018. According to the fair value hierarchy, the input data levels for measuring fair value are 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

		31 Decen	nber 2018			31 Decem	nber 2017	
€ million	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets Investments in bonds	-	-	-	-	-	193	-	193
Total assets	-	-	-	-	-	193	-	193
Liabilites Current derivatives	-	-	-	-	-	2	-	2
Total Liabilities	-	-	-	-	-	2	-	2

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. Changes are made only as necessary owing to changes in the availability of the relevant inputs. No such changes were made during the year and there were therefore no transfers from one level of the fair value hierarchy to another.

Methods used for level 2 fair value measurement

The investments in bonds relates to the 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.

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. Also shown is the input data level according to the fair value hierarchy.

Fair value of financial assets and liabilities measured at amortised costs

€ million	Note	31 December 2018		31 December 2017	
		Fair value	Level	Fair value	Level
Non-current assets					
Investments in bonds and other financial assets	7	253	2	41	2
Liabilities					
Non-current liabilities					
Finance lease liabilities	19	-204	2	-200	2
Interest-bearing debt:					
Euro Medium Term Notes	13	-1,184	1	-1,531	1
Other interest-bearing debt	13	-396	2	-173	2
Total non-current liabilities		-1,784		-1,904	
Short-term liabilities					
Interest-bearing debt:					
Euro Medium Term Notes	13	-313	1	-	
Euro Commercial Paper	13	-	2	-225	2
Other interest-bearing debt	13	-28	2	-11	2
Total short-term liabilities		-341		-236	
Total liabilities		-2,125		-2,140	

Measurement of fair value

The fair value of these instruments is measured as follows:

Investments in bonds and 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.

Interest-bearing debt: 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 2018 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	2018	2017
Net result on derivatives held for trading: Fair value changes in currency instruments Net result on investments in bonds	-	-30 -20
Net result on financial liabilities at amortised cost: Interest charges on financial liabilities at amortised cost Interest gains on cash equivalents, loans granted, trade receivables, other receivables and deposits Currency translation differences Fees paid and received other than for the calculation of the effective interest rate	-58 11 2 -1	-59 12 55 -1
Net finance income and expense	-46	-43
Impairment of trade receivables	-2	-
Other operating expenses	-2	-

Note 35 Assumptions and estimates used in the financial statements (critical accounting policies)

Alliander prepares its financial statements in accordance with International Financial Reporting Standards that have been endorsed for use in the European Union by the European Commission. 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. Alliander is developing a number of new activities within the framework of its strategy. Due to the start-up nature of these activities inherent uncertainties are attached to their valuation. 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. An increase in the discount rate of 1 percentage point, for example, has the effect of reducing the necessary carrying amount of the provision by €3 million.

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 credit risk on its receivables, based on experience as well as developments affecting specific accounts. Impairment losses are recognised on account balances where indicated by this assessment. The actual situation may turn out to be different from the assumptions used in identifying impairment.

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 and 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 balance sheet date

There have been no post-balance-sheet events.

Company financial statements

Company balance sheet (as at 31 December, before appropriation of profit)

€ million	Note	2018	1	2017	,
Non-current assets					
Property, plant and equipment	37	260		275	
Intangible assets	38	68		69	
Investments in associates	39	2,499		2,480	
Other financial assets	40	2,642		2,639	
Total non-current assets			5,469		5,463
Current assets					
Other receivables	41	51		71	
Other financial assets		-		-	
Receivables from subsidiaries	41	454		302	
Cash and cash equivalents	42	139		95	
Total current assets			644		468
Total assets	_		6,113		5,931
Equity	43				
Share capital		684		684	
Share premium		671		671	
Subordinated perpetual bond loan ¹		495		496	
Revaluation reserve ¹		-		38	
Other reserves		1,945		1,850	
Result for the year		334		203	
Total equity			4,129		3,942
Non-current liabilities					
Interest-bearing debt	44	1,473		1,553	
Total non-current liabilities			1,473		1,553
Provisions	45		30		45
Short-term liabilities					
Current and accrued liabilities	46	481		389	
Derivatives	47	-		2	
Total short-term liabilities			481		391
Total equity and liabilities			6,113		5,931

¹ The revaluation reserve and the subordinated bond loan are not freely distributable.

Company income statement

€ million	Note	2018	2017
Revenue		27	9
Own work capitalised		33	36
Other income		346	286
Total income	49	406	331
Costs of subcontracted work and other external expenses	50	-60	-73
Employee benefit expenses	51	-107	-113
Social security premiums	51	-9	-9
Amortisation/depreciation of intangible assets and property, plant and equipment	52	-58	-57
Other operating expenses	53	-88	-87
Total operating expenses		-322	-339
Operating profit		84	-8
Proceeds from receivables included in non-current assets and securities	54	94	133
Interest and similar expenses	55	-47	-82
Profit before tax		131	43
Тах	56	-10	-9
Share of profit/loss from investments in affiliated companies	57	213	169
Profit after tax		334	203

Company statement of comprehensive income

€ million	2018	2017
Profit after tax	334	203
Movement in revaluation reserve	-	-10
Tax	-	2
Comprehensive income	334	195

Notes to the company financial statements

Accounting policies

The company financial statements of Alliander N.V. (Chamber of Commerce company reg. no. 34108286) have been prepared according to the provisions of Part 9, Book 2, of the Netherlands Civil Code. The accounting policies used are the same as those used for the consolidated financial statements, in accordance with the provisions of Section 362, subsection 8 of Part 9, Book 2, of the Netherlands Civil Code, with investments in group companies accounted for on the basis of net asset value.

The company financial statements of Alliander N.V. comprise the company balance sheet, the company income statement and the company statement of comprehensive income. The notes to the company financial statements constitute an integral part of the company financial statements of Alliander N.V.

The carrying amount of the entities included in the consolidation is measured at net asset value, the company's economic interest being measured at fair value on initial recognition, with the carrying amount subsequently increased or reduced by the company's share in the results. Dividends received are deducted from the carrying amount.

The functional currency of Alliander N.V. is the euro. Unless otherwise stated, all amounts are in millions of euros. For the detailed policies, reference is made to the accounting policies for the consolidated financial statements.

Note 37 Property, plant and equipment

€ million	Land and buildings	Other plant and equipment	Assets under construction	Total
Historical cost	205	411	44	660
Accumulated depreciation and impairment	-73	-313	-	-386
Carrying amount as at 1 January 2017	132	98	44	274
Movements in 2017				
Investments	-	15	43	58
Depreciation Parks of factions to a fact and all accounts to	-7 29	-50 29	- -58	-57
Reclassifications, transfers and other movements	29	29	-58	-
Total	22	-6	-15	1
Carrying amount as at 31 December 2017				
Historical cost	234	455	29	718
Accumulated depreciation and impairment	-80	-363	-	-443
Carrying amount as at 31 December 2017	154	92	29	275
Movements in 2018				
Investments	-	9	35	44
Depreciation	-10	-47	-	-57
Reclassifications, transfers and other movements	2	30	-34	-2
Total	-8	-8	1	-15
Carrying amount as at 31 December 2018				
Historical cost	226	460	30	716
Accumulated depreciation and impairment	-80	-376	-	-456
Carrying amount as at 31 December 2018	146	84	30	260

Capital expenditure

Capital expenditure on property, plant and equipment totalled €44 million (2017: €58 million). This mainly related to investments in hardware and software and to expenditure on buildings.

Note 38 Intangible assets

€ million	Goodwill	Other intangible assets	Total
As at 1 January 2017			
Historical cost	68	4	72
Accumulated depreciation and impairment	-	-2	-2
Carrying amount as at 1 January 2017	68	2	70
Movements in 2017			
Depreciation	=	-1	-1
Total	-	-1	-1
As at 31 December 2017			
Historical cost	68	4	72
Accumulated depreciation and impairment	-	-3	-3
Carrying amount as at 31 December 2017	68	1	69
Movements in 2018			
Depreciation	=	-1	-1
Total	-	-1	-1
As at 31 December 2018			
Historical cost	68	4	72
Accumulated depreciation and impairment	-	-4	-4
Carrying amount as at 31 December 2018	68	-	68

Intangible assets as at year-end 2018 is largely made up of goodwill relating to the acquisition of Endinet (€61 million), which is allocated to Liander, and goodwill relating to Stam (€7 million), see note [4].

Note 39 Investments in subsidiaries and associates

€ million	Investments in subsidiaries	Investments in associates	Total
Carrying amount as at 1 January 2017	1,854	1	1,855
Movements in 2017			
Dividends received	-45	-	-45
Result for the year	169	-	169
Issue of share capital	511	-	511
Movement in revaluation reserve	-8	-	-8
Other changes	-2	-	-2
Total	625	-	625
Carrying amount as at 31 December 2017	2,479	1	2,480
Movements in 2018			
Dividends received	-185	-	-185
Result for the year	213	-	213
Issue of share capital	68	-	68
Movement in revaluation reserve	-38	-	-38
Sale of interest in Allego	-44	-	-44
Other changes	5	-	5
Total	19	-	19
Carrying amount as at 31 December 2018	2,498	1	2,499

In 2018, an amount of \in 185 million (2017: \in 45 million) was received from the subsidiaries of Liander N.V., Kenter B.V., Qirion B.V. and Utility Connect B.V. in respect of dividends. The investments of \in 68 million in 2018 relate to payments of capital invested in the subsidiaries of Alliander N.V.

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. Utility Connect B.V. is included in the company financial statements as a joint operation, in which Alliander's share is 59.28%.

The various share capital investments are listed separately under the heading 'Subsidiaries, associates and joint arrangements' in the 'Other information' part of the report.

Note 40 Other financial assets

€ million	Deferred tax assets	Loans granted to subsidiaries	Other receivables	Total
Carrying amount as at 1 January 2017	10	2,585	15	2,610
Movements in 2017				
New receivable	=	29	12	41
Loans paid	-	-3	-10	-13
Realised temporary differences	1	-	-	1
Total	1	26	2	29
Carrying amount as at 31 December 2017	11	2,611	17	2,639
Movements in 2018				
New receivable	=	-	36	36
Loans paid	-	-26	-6	-32
Realised temporary differences	-1	-	-	-1
Total	-1	-26	30	3
Carrying amount as at 31 December 2018	10	2,585	47	2,642

In June 2015, Alliander granted a long-term loan of €2,566 million to Liander, along with other lending. This amount was deducted from the current account in 2015. This means that there are two separate financing arrangements between Alliander and Liander, namely a long-term loan agreement, essentially for the purpose of financing network replacement and expansion investments, as well as the existing, separate current account agreement to finance working capital. This provides a closer match between the time horizons of the financing arrangements and the useful lives of the corresponding assets.

The long-term loan agreement with Liander runs for 10 years with automatic annual extension thereafter for periods of one year unless designated otherwise. The rate in 2018 amounted to 2.95% (2017: 3.15%). The interest rate is based on the average cost of borrowing on Alliander's lending portfolio, with a risk markup. The interest rate will be reviewed annually. The principal will be repayable at the latest on the conclusion of the arrangement. At year-end 2018 the fair value is \leq 2,879 million (2017: \leq 2,879 million).

The increase in the other receivables is explained by the long-term receivable from Meridiam, the purchaser of Allego B.V. For further details, reference is made to note [22].

Note 41 Other receivables and receivables from subsidiaries

The other receivables include an amount of €11 million (2017: €22 million) owed by the non-controlling interest Reddyn. For further disclosures, reference is made to the item of trade and other receivables in the consolidated financial statements.

There is group-wide financing for receivables from group companies within the Alliander group, meaning that the activities of the subsidiaries are part-financed through a current account facility with the holding company. External financing is arranged by the holding company itself. Each year, there is a capital restructuring of these companies in line with Alliander's policy, resulting in the distribution of dividends to the parent company or payments of share premium..

The current account facility is mainly for financing the working capital of Alliander's subsidiaries. All income and expenditure is accounted for through the current accounts with the subsidiaries. Differentiated interest rates are applied to this finance, of 2.67% (2017: 2.89%) for subsidiaries operating in the regulated market, 3.67% (2017: 3.86%) for 'Stable Business' subsidiaries and 4.67% (2017: 4.89%) for 'New Business & High Risk' subsidiaries. The interest rate is based on the average cost of borrowing on Alliander's lending portfolio as at year-end 2017, possibly with a risk markup. Current-account lending is treated as a demand deposit and counts as cash-equivalent.

Note 42 Cash and cash equivalents

The cash and cash equivalents balance at the end of 2018 did not include any restricted cash (2017: nil).

Note 43 Equity

The statement of changes in equity is included in the consolidated financial statements.

Note 44 Non-current liabilities

Interest-bearing debt

€ million	2018	2017
Carrying amount as at 1 January	1,783	1,562
Movements		
New loans	835	1,157
Loans repaid	-838	-903
Currency translation differences and other movements	-	-33
Total	-3	221
Carrying amount as at 31 December	1,780	1,783

Long-term interest-bearing debt including current portion

	Effective in	terest rate	Current	portion	Non-curre	nt portion
€ million	2018	2017	2018	2017	2018	2017
Subordinated loans	8.5%	8.6%	7	5	65	70
Private and green loans	1.4%	1.3%	-	-	312	88
Euro Medium Term Notes	2.6%	2.6%	300	-	1,096	1,395
Euro Commercial Paper	0.0%	0.7%	-	225	-	-
Other	0.0%	0.0%	-	-	-	-
Carrying amount as at 31 December			307	230	1,473	1,553

Maturities of interest-bearing debt

€ million	2018	2017
Less than 1 year	3	7 230
Between 1 and 2 years		7 306
Between 2 and 3 years		9 7
Between 3 and 4 years	4	7 8
Between 4 and 5 years		- 409
Over 5 years	1,0!	0 823
Carrying amount as at 31 December	1,73	0 1,783

Subordinated loans

These loans have been made available by shareholders. They are subordinated to all other liabilities.

Note 45 Provisions

€ million	Long-service benefits	Termination benefits	Other provisions	Total
Carrying amount as at 1 January 2017	29	6	12	47
Movements in 2017				
Released	-	-3	=	-3
Added	3	7	12	22
Utilised	-2	-11	-10	-23
Major curtailments and settlements	-	6	-4	2
Total	1	-1	-2	-2
Carrying amount as at 31 December 2017	30	5	10	45
Movements in 2018				
Released	-9	-2	=	-11
Added	=	11	9	20
Utilised	-2	-7	-9	-18
Reclassified to short-term liabilities	-6	-	-	-6
Major curtailments and settlements	1	-1	=	-
Total	-16	1	-	-15
Carrying amount as at 31 December 2018	14	6	10	30

The Network Operators reached agreement with the unions on a new CLA at the end of 2018. The new CLA includes changes to the long-service benefits scheme. In fact, the existing long-service benefits payable at 10, 20, 30, 40 and 50 years of service are being discontinued. The revised long-service benefits scheme covers long-service benefits payable on attaining 25 and 40 years of service. The change results in the release of €11 million from the provision in 2018.

Note 46 Short-term liabilities

€ million	2018	2017
Short-term liabilities		
Amounts owed to suppliers and trade creditors	13	8
Tax and social security contributions	92	79
Liabilities in respect of pensions	5	4
Interest-bearing debt	307	232
Other liabilities and accruals	64	66
Total short-term liabilities	481	389

The short-term liabilities, accruals and deferred income relate to trade payables, taxes payable and the other short-term liabilities. The interest-bearing liabilities chiefly concern the liabilities under the EMTN programme.

Note 47 Derivatives

Financing was raised in 2018 under the Euro Commercial Paper Programme, denominated in foreign currency. In order to eliminate currency risks, the foreign currency was immediately converted into euros by means of foreign exchange swaps. As at year-end 2018, the derivative instruments were settled, taking the amount to nil (2017: €2.2 million).

Note 48 Contingent assets and liabilities

Pursuant to Section 403 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 in the 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 network operator Liander under which its liability in this respect is restricted to the amount for which Liander itself would be liable if a tax group did not exist.

As at year-end 2018, Alliander had issued parent company guarantees amounting to \leqslant 34 million (2017: \leqslant 45 million) and a parent company guarantee of \leqslant 5.2 million (2017: \leqslant 5.2 million) for the non-controlling interest Reddyn. Bank guarantees amounting to \leqslant 0.6 million had been issued on Alliander's behalf as at year-end 2018 (2017: \leqslant 0.4 million). As at year-end 2018, Alliander had issued guarantees totalling \leqslant 27 million to the subsidiary Allego B.V. that was sold off in 2018. Under the terms of the sale and purchase agreement, Alliander is indemnified by the purchaser Meridiam in the event that these guarantees are invoked. The guarantees will shortly be assumed by Meridiam itself.

Operating leases

The following table presents the future minimum operating lease payment obligations. Alliander has operating lease payables, mainly relating to buildings and company cars.

€ million	2018	2017
Less than 1 year	15	23
Between 1 and 5 years	38	51
Over 5 years	64	62
Total as at 31 December	117	136

Capital expenditure commitments

The following table presents the existing capital expenditure commitments and other purchase commitments as at year-end.

€ million	2018	2017
Other purchasing commitments	70	75
Total as at 31 December	70	75

Note 49 Operating income

€ million	2018	2017
Revenue	27	9
Own work capitalised	33	36
Other income	346	286
Total	406	331

Revenue mainly comprises charges passed on for CDMA data communication network services. The other income chiefly relates to group-wide activities at holding company level.

Note 50 Costs of subcontracted work and other external expense

€ million	2018	2017
Contractors, materials, external personnel and other	60	73
Total	60	73

Note 51 Employee benefit expense

€ million	2018	2017
Salaries	84	82
Social security premiums	9	9
Pension costs:		
- contributions paid to multi-employer plans that are accounted for as defined-contribution plans	13	12
Termination benefit expenses	6	4
Other long-term employee benefits	-3	7
	3	11
Other staff costs	7	8
Total	116	122

Staff costs mainly concerns the costs of group-wide activities at holding company level.

Nearly all the personnel are on the Alliander N.V. payroll. The staff costs are charged to the business units where the employees concerned work. The total staff costs recognised in the income statement (\in 116 million; 2017: \in 122 million) relate to Alliander N.V. corporate staff department and service unit staff.

The number of employees, based on a 38-hour week (FTE), at year-end 2018 was 1,039 (2017: 1,105).

Note 52 Depreciation and amortisation

€ million	Land and buildings	Other	Total
2018 Depreciation	10	48	58
Total 2018	10	48	58
2017 Depreciation	7	50	57
Total 2017	7	50	57

The amortisation of intangible assets is disclosed in the column headed 'Other'.

Note 53 Other operating expenses

€ million	2018	2017
Items charged by subsidiaries	6	8
Premises and transport	6	6
Rent and leases	10	12
Corporate staff and ICT	45	41
Accountancy, notary and consulting expenses	14	17
Sufferance tax and other tax	1	1
Other	6	2
Total	88	87

Costs passed on by group companies mainly concerns internal development projects at holding company level.

Note 54 Finance income

€ million	2018	2017
Interest income on loans and deposits	1	1
Currency translation differences	1	32
Finance income on loans of group companies	92	100
Total	94	133

Alliander uses FX swaps to hedge the currency risk. The exchange differences arise from the effect which the movements in the US dollar exchange rate against the euro have on the finance raised in foreign currencies under the ECP Programme.

The finance income from loans to group companies was down by €8 million compared with 2017 as a result of changes in the interest rate charged and changes in the composition of group companies.

Note 55 Finance expense

€ million	2018	2017
Loans from third parties	47	48
Finance expense on loans from group companies	-	6
Currency translation differences	-	28
Total	47	82

The exchange differences arise from the effect which the movements in the US dollar exchange rate against the euro have on the finance raised in foreign currencies under the ECP Programme, which are hedged by means of FX swaps.

Note 56 Tax

€ million	2018	2017
Current tax expense	-7	-10
Movement in deferred tax	-3	1
Total	-10	-9

The effective tax rate was 9%. The recognised tax expense of €10 million is made up of tax charges of €7 million for 2018 and the change in the deferred tax of €3 million. The low tax burden is mainly attributable to the substantial-holding privilege applicable to the book profit on Allego B.V.

Note 57 Share in profit/loss from investments in affiliated companies

€ million	2018	2017
Result from interests in subsidiaries and associates after tax	213	169
Share of profit/loss from investments in affiliated companies	213	169

The share in the results of companies invested in after tax was up by €44 million, mainly due to increased profits from the network operator Liander and the metering company Kenter B.V.

Dividend proposal for 2018

The Management Board has determined, with the approval of the Supervisory Board, to add €184.1 million of the profit to the Other reserves. The remaining profit of €150.0 million is at the disposal of the General Meeting of Shareholders. This equates to 45 per cent of profit after tax, excluding incidental items after tax that did not generate cash flows in the 2018 financial year.

The dividend for 2018 is up by €58 million compared with 2017 owing to the higher net profit for 2018, which is mainly explained by the fact that there was an incidental book profit on the sale of Allego in 2018.

Events after balance sheet date

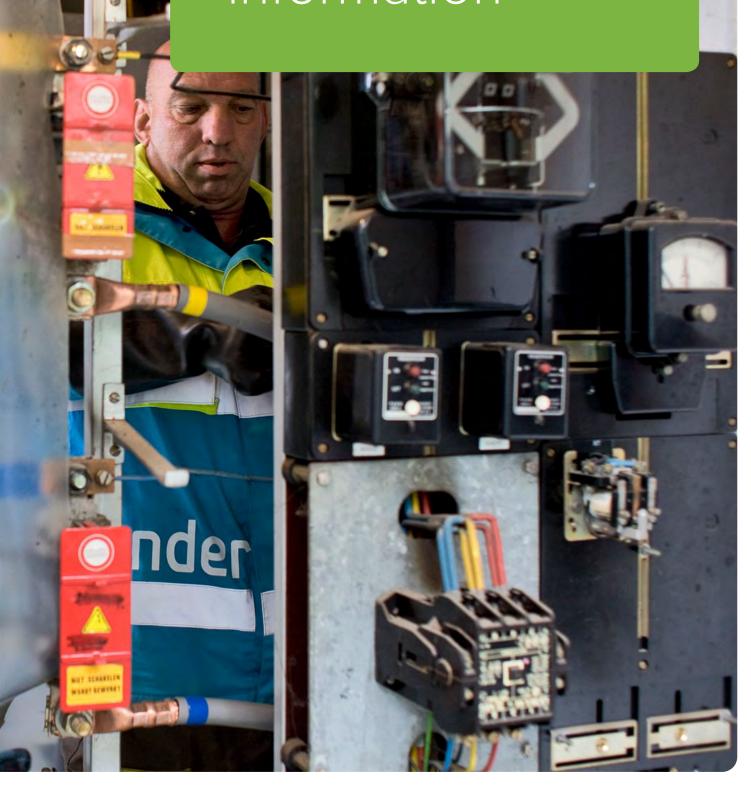
There have been no post-balance-sheet events.

Principal subsidiaries and other participations

As at 31 December 2018		
	Based in	%
Consolidated subsidiaries		
Liander N.V.*	Arnhem	100%
Liander N.V. *	Arnhem	100%
Qirion B.V. *	Duiven	100%
Stam Heerhugowaard Holding B.V. *	Heerhugowaard	100%
Stam & Co. Materieel B.V.*	Heerhugowaard	100%
Telinfra Support B.V.*	Heerhugowaard	100%
• •	<u> </u>	100%
Stam & Co. Leidingwerken B.V.*	Heerhugowaard Heerhugowaard	100%
Stam & Co. Infratechniek B.V.*		67%
Sol Energy v.o.f.*	Heerhugowaard	100%
Alliander Telecom N.V. *	Amsterdam Arnhem	
Kenter B.V. *		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%
OMONS B.V.*	Arnhem	100%
Alliander Corporate Ventures B.V.*	Arnhem	100%
BackHoom B.V. *	Arnhem	100%
Energy Exchange Enablers B.V.*	Arnhem	100%
Locol (Alliander Smart Connections B.V.)*	Arnhem	100%
Firan B.V. *	Amsterdam	100%
Indigo B.V.	Arnhem	95%
Warmtenetwerk Hengelo B.V.	Hengelo	95%
Warmte-Infrastructuur Limburg Geothermie B.V.	Venlo	75%
Sim-Cl Holding B.V.*	Arnhem	100%
Alliander AG	Berlin	100%
Alliander Netz Heinsberg GmbH	Heinsberg	100%
Alliander Stadtlicht GmbH	Berlin	100%
2. Alliander Vorratsgesellschaft mbH	Osthavelland	100%
1. Alliander Vorratsgesellschaft mbH	Brandenburg	100%
Alliander Netzbetrieb Hennigsdorf GmbH	Henningsdorf	100%
Alliander Stadtlicht Rhein-Ruhr	Hagen	100%
Bietergemeinschaft Hagen GBR	Hagen	100%
450connect GmbH	Köln	100%
Locamation Beheer B.V.	Enschede	100%
Joint operations		
Utility Connect B.V.	Arnhem	50%
ounty Connect B.v.	Alllielli	30%
Other associates and joint ventures		
INNAX Group B.V.	Veenendaal	13%
Reddyn B.V.	Arnhem	50%
EDSN B.V.	Baarn	26%
Etriplus B.V.	Venlo	25%
Duurzame Energie Netwerken Gelderland B.V.	Arnhem	50%
Duurzame Energie Netwerken Noord-Holland B.V.	Zaanstad	50%
Stadtbeleuchtung Hagen GmbH	Hagen	49%

 $^{^{\}ast}\,$ Alliander N.V. has issued a Section 403 statement of liability for these subsidiaries..

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.

- 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.
- 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.
- Profit distributions are limited to the distributable part of the shareholders' equity.
- Distribution of profit will take place after the adoption of the income statement, which demonstrates that it is permissible.
- 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.
- 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.

Independent auditor's report and assurance report

Introduction

Dear shareholders and supervisory board of Alliander N.V.,

We were engaged by the supervisory board as auditor of Alliander N.V. as of the audit for year 2016 and have therefore audited the financial statements 2018. Furthermore the management board engaged us to provide assurance on a selection of non-financial information in the Annual Report 2018.

Our reports in relation to both assignments, namely the auditor's report on the financial statements 2018 and the assurance report on the non-financial information, are included below.

Independent auditor's report

To the shareholders and the Supervisory Board of Alliander N.V.

Report on the audit of the financial statements 2018 included in the annual accounts

Our opinion

We have audited the accompanying financial statements 2018 of Alliander N.V., based in Arnhem. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The consolidated financial statements included in these annual accounts give a true and fair view of the financial position of Alliander N.V. as at 31 December 2018, and of its result and its cash flows for 2018 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 included in these annual accounts give a true and fair view of the financial
 position of Alliander N.V. as at 31 December 2018, and of its result for 2018 in accordance with Part 9 of Book 2 of
 the Dutch Civil Code.

The consolidated financial statements comprise:

- 1. The consolidated statement of financial position as at 31 December 2018.
- The following statements for 2018: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows.
- 3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- 1. The company balance sheet as at 31 December 2018.
- 2. The company profit and loss account for 2018.
- 3. The notes comprising a summary of the accounting policies and other explanatory information.

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 EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at € 22 million. The materiality is based on 5% of profit before tax. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of € 1.1 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Alliander N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Alliander N.V.

Our group audit mainly focused on significant group entities Alliander N.V. and Liander N.V. We have performed audit procedures ourselves at group entities Alliander N.V. and Liander N.V. At other group entities we performed review procedures or specific audit procedures.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board.

The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters 2017

The key audit matter "Valuation of fixed assets in the segment Other" related to the financial statements 2017 has no longer been identified as key audit matter, considering the most important entities are sold or no longer significant.

Key audit matters 2018

Key audit matters

Property, plant and equipment

Description

In determining the carrying amount of property, plant and equipment, amounting to EUR 7,072 million as at 31 December 2018, significant assumptions and judgments are applied, both in determining the amounts that should be capitalized and in assessing the useful lives of the assets. Furthermore property, plant and equipment require significant time and resource to audit due to their magnitude.

The disclosures regarding the accounting policies are included in page 135-136 of the financial statements. Specific disclosures regarding property, plant and equipment are included in Notes 3, 26 and 35 of the financial statements.

Revenue recognition

Description

The Company's net revenue for the year 2018 amounts to EUR 1,920 million and its major part is related to the regulated activities of the network operator Liander N.V.

The revenue recognition process involves only limited management's judgment. Nevertheless the revenue recognition and relevant internal controls and IT systems require significant time and resource to audit due to the magnitude. Therefore revenue recognition was identified as a key audit matter.

The disclosures regarding the accounting policies are included on page 142 of the financial statements. Specific disclosures regarding revenues are included in note 21 of the financial statements.

Our audit procedures

Our audit approach

Property, plant and equipment are measured at historical cost, less accumulated depreciation and impairment. These accounting policies are in line with International Financial Reporting Standards (IFRS) as adopted by the EU and have been applied consistently.

Our audit procedures included obtaining an understanding of internal and external developments that are applicable to Alliander specifically or to the sector at large. Based on our risk assessment, where we used data analytics, we determined the audit approach. We performed procedures to test key controls, particularly in relation to cost estimation and subsequent costing, the capitalization of projects, the processing of depreciation, the accounting for project-related hours and IT related controls for the relevant systems. We also performed substantive procedures regarding capitalized costs, divestments and depreciation.

Furthermore we specifically paid attention to the evaluation of the useful live of the gas network. Based on the laws and regulations in place during 2018, the regional network operators are still required to connect customers to the gas network and to maintain the gas network. Also the regulatory useful live of the gas network remains unchanged. Consequently management concluded that there is no reason to shorten the economic useful live of the gas network at this moment and furthermore that (in view of the enormous impact to the general public) this discussion needs to be decided on for the sector at large.

Observation

Based on our audit procedures we noted no findings.

Our audit approach

Our audit procedures included obtaining an understanding of the significant revenue streams and of relevant internal and external developments. Based on our risk assessment we determined the audit approach. For the material revenue streams, we determined that the accounting policies, which are in line with International Financial Reporting Standards (IFRS) as adopted by the EU, have been applied consistently.

We tested the relevant key controls, particularly for the significant component Liander N.V. These key controls are mainly related to the processing of changes in contracts and rates, and reconciliations, but also to interfaces with external parties (including EDSN) that are used for the exchange of information regarding connections and measurement data relevant to the revenue recognition by Alliander. We also tested the operating effectiveness of IT related controls, to the extent necessary within the scope of the audit of the financial statements, and obtained and reviewed the ISAE 3402 report regarding the internal controls of the service organization EDSN.

Finally we performed substantive procedures to test the complete recognition of revenue transactions at the appropriate rates.

Observation

Based on our audit procedures we noted no findings.

Report on the other information included in the annual accounts

In addition to the financial statements and our auditor's report, the annual accounts contain other information that consists of:

- Management Board's Report (page 3 120)
- Other information.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements.
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of other information, including the Management Board's Report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the supervisory board as auditor of Alliander N.V. on 29 July 2015, as of the audit for year 2016 and have operated as statutory auditor ever since that financial year. The supervisory board was given a mandate hereto by the shareholders.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

Description of responsibilities regarding the financial statements

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU -IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management 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 objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.

- 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 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 management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events 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. 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.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with management, audit committee and the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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 the key audit matters: those matters that were of most significance in the audit of the financial statements. 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.

Amsterdam, 15 February 2019

Deloitte Accountants B.V.

Signed by J. Dalhuisen

Assurance report of the independent auditor

To: The management board of Alliander N.V.

The management board of Alliander N.V. ('the Company') engaged us to provide assurance on a selection of nonfinancial information in the Annual Report 2018 ('the Report'). Our engagement consisted of a combination of limited assurance (leading to a 'conclusion') and reasonable assurance (leading to an 'opinion').

We were engaged to provide limited assurance on the following chapters ('the reviewed information'):

- About this report (page 3-6)
- Our story in 2018 (page 7-10)
- Profile of Alliander (page 11-33)
- Our results in 2018 reported in the chapters:
 - Customers (page 37-53)
 - Employees (page 54-66)
 - Shareholders and investors (page 67-92)
- The impact cases on pages 52-53 and 91-92.

Furthermore we were engaged to provide reasonable assurance on the following information ('the audited information'):

- The summarized materiality assessment presented in the chapter 'About this report' on page 4-5 and the
 extensive materiality assessment presented in the chapter 'Other Information, Materiality Test' on page 208.
- The table 'Objectives and Results' in the chapter "Our results in 2018" on page 35-36.

Our conclusion

Based on our review procedures performed, nothing has come to our attention that causes us to believe that the reviewed information is not prepared, in all material respects, in accordance with the Sustainability Reporting Guidelines version GRI Standards Comprehensive of GRI and the internally applied reporting criteria as disclosed in chapter 'Other Information' of the Report.

Our opinion

In our opinion, the audited information is prepared, in all material respects, in accordance with the Sustainability Reporting Guidelines version GRI Standards Comprehensive of GRI and the internally applied reporting criteria as disclosed in chapter 'Other Information' of the Report.

Basis for our conclusion and our opinion

We conducted our review and our audit of the aforementioned information in accordance with Dutch law, including Dutch Standard 3810N 'Assurance engagements relating to sustainability reports'. A review is focused on obtaining limited assurance, while an audit engagement is focused on obtaining reasonable assurance. Our responsibilities under this standard are further described in the 'Our responsibilities' section of our report.

We are independent of Alliander 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.

Reporting criteria

The sustainability information needs to be read and understood together with the reporting criteria. Alliander N.V. is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used for the preparation of the sustainability information are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria as disclosed on in chapter 'Other Information' of the Report.

Areas of focus

Areas of focus are those matters that, in our professional judgement, were of most significance in our assurance engagement of the Report. We have communicated the areas of focus to the supervisory board and management board. The areas of focus are not a comprehensive reflection of all matters discussed.

These areas were addressed in the context of our assurance assignment in relation to the Report as a whole and in forming our opinion and our conclusion thereon, and we do not provide a separate opinion on these areas.

Areas of focus

Description

One of the topics Alliander N.V. reports on on page 25-30, 52-53 and 91-92 relates to the social impact of Alliander's activities on the environment

Alliander applied the six capital model of the International Integrated Reporting Council (IIRC) as a basis for determining the relevant social impacts. Alliander has determined the social impacts based on the supply chain and has attempted to quantify these impacts in one unity (euro's) to the extent possible.

The social impact measurement was expanded compared to prior year to include the impacts 'contribution of heating transmission to well-being of consumers', the addition of 'redelivery' to the 'contribution of electricity transmission to well-being of consumers', 'ecological costs of materials procurement' and 'ecological damage due to waste'.

As indicated by Alliander the identification, quantification and monetization of social impacts is still in the early stages of development. Therefore Alliander is obliged to make assumptions.

We observe that the calculated consumer surplus in particular is strongly dependent on the assumptions used, the expertise contributed by the external advisors and is based on complex calculations. Furthermore the monetization of the impact on prosperity and wellbeing, the balance between social profit and loss and the attribution to the various participants in the energy supply chain, are not yet generally accepted. Therefore the public acceptance of the selected assumptions and calculation methods have been tested only in a limited manner.

A summary of the key assumptions is presented in the 'Other information' on page 227 of the Report.

Procedures performed

Our procedures regarding the area of focus consisted of evaluating the social impact measure in chapter 'Our impact and value creation' on page 25-30 and the impact cases on pages 52-53 and 91-92.

Based on interviews with employees and management of Alliander N.V. and the external advisors, we obtained an understanding of the methods and assumptions on which the calculations of the social impacts are based.

Where Alliander used external advisors for performing the impact calculations (ic Trueprice), we obtained an understanding of the competency and objectivity of those advisors.

We obtained an understanding of the calculations and performed recalculations for the key elements. For the reperformance of the consumer surplus calculation we used a model validation expert.

For key assumptions as presented in chapter 'Other Information' on page 227 of the Report we performed reconciliations with various sources such as subledgers, external reports and research results. For prospective information or estimates we obtained an understanding of the underlying data.

Based on the procedures performed, we obtained an adequate understanding of the methods and assumptions used by management.

Observation

Based on the procedures performed, we obtained an adequate understanding of the methods and assumptions used by management.

Unexamined prospective information

The Report includes prospective information such as ambitions, strategy, plans, expectations and estimates. Inherently, the actual future results will likely differ from these and are therefore uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the Report.

Responsibilities of the management board and the supervisory board

The management board of the entity is responsible for the preparation of the Report in accordance with the Sustainability Reporting Guidelines version GRI Standards Comprehensive of GRI and the internally applied reporting criteria as disclosed in chapter 'About this report' of the Report, including the identification of stakeholders and the definition of material matters. The choices made by the management board regarding the scope of the Report and the reporting policy are summarized in chapter 'Other Information' of the Report.

Management is also responsible for such internal control as management determines is necessary to enable the preparation of the sustainability information that is free from material misstatement, whether due to fraud or error.

The supervisory board is responsible for overseeing the company's reporting process.

Our responsibilities

Our responsibility is to plan and perform the assurance assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion and our conclusion.

Procedures performed in an assurance engagement to obtain a limited level of assurance are aimed to determine the plausibility of information and are less extensive than a reasonable assurance engagement. The level of assurance obtained in assurance engagements with a limited level of assurance is therefore substantially less than the assurance obtained in audit engagements.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Report. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We apply the 'Nadere voorschriften accountantskantoren ter zake van assurance opdrachten (RA/AA)' and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have exercised professional judgement and have maintained professional skepticism throughout our audit and our review, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Limited assurance procedures

Our main procedures included the following:

- Performing an external environment analysis and obtaining insight into relevant social themes and issues, and the characteristics of the organisation.
- Evaluating the appropriateness of the reporting policy and its consistent application, including the evaluation of
 the results of the stakeholders' dialog and the reasonableness of management's estimates.
- Interviewing management (or relevant staff) responsible for the sustainability strategy and policy.
- Interviewing relevant staff responsible for providing the information in the Report, carrying out internal control
 procedures on the data and consolidating the data in the Report.
- An analytical review of the data and trends.
- Investigating internal and external documentation, including examination of information on a test basis, to determine whether the information in the Report is reliable.

Reasonable assurance procedures

Our audit included the following:

- Identifying and assessing the risks of material misstatement of the Report, whether due to errors or fraud,
 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 errors, as fraud may involve collusion, forgery, intentional
 omissions, misrepresentations, or the override of internal control.
- Evaluating the design and implementation and testing the operating effectiveness of the reporting systems and processes related to the information in the Report.
- Evaluating the overall presentation, structure and content of the Report, including the disclosures.
- Evaluating internal and external documentation, on a test basis, to determine the reliability of the information in the Report.
- Evaluating the underlying transactions and events.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant findings, including any significant findings in internal control that we identify during our audit.

From the matters communicated with the supervisory board we determine the areas of focus in the audit of the sustainability information. We describe these matters in our assurance report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not mentioning it is in the public interest.

Amsterdam, February 15, 2019

Deloitte Accountants B.V.

Signed by J. Dalhuisen

Opinion of the Alliander stakeholder panel

Dear reader

For the fourth successive occasion Alliander has organised a stakeholder panel to review its Annual Report. Our feedback on the 2018 Annual Report is summarised in this statement. We believe that this will enable Alliander to gear the report more closely to the wishes and needs of the stakeholders.

Process

We are pleased with the invitation from Alliander to its stakeholders to provide feedback on the annual report. The stakeholder panel was involved in the report writing process a month earlier than in previous years. We realise that this early involvement means we were reviewing a draft report that was at a less advanced stage but we are appreciative of the fact that, by convening the panel sooner, the organisation was creating greater scope for taking its comments into account.

General impression

Alliander's annual report is easy to read and clearly structured. The information in the report gives a fascinating insight into Alliander's activities and the challenges facing the company. The document gives a clear and connected account of the policy pursued and the results achieved. The panel nevertheless feels that in some instances the way the report is worded and the structure of the report do not really do justice to the progressive aspirations of the company. For our part, Alliander could take a bolder stance. In the interests of transparency we suggest not just giving comparative figures for the preceding year but going farther back in time in more places. There also needs to be a critical assessment of the 'decision usefulness' of the reported activities and results: are they relevant to policy decisions?

Recommendations

Selection of themes of material importance

In preparing the annual report, Alliander proceeds on the basis of the materiality analysis. This exercise was repeated last year. And we observe that the results of the analysis are adequately reflected in the accountability document. However, it occurs to us that some of the selected themes are treated differently as a result of the revised prioritisation and the order in which they are covered does not really reflect the collective challenges facing Alliander but tends to represent a combination of individual stakeholder interests instead. We do not really comprehend the themes and do not entirely agree with them. Maybe the report could make it clear how the selection was arrived at and re-examine the analysis underpinning subsequent reports.

Alliander's role in the energy transition

The energy transition is in full swing. From the statement by the CFO we conclude that the role which Alliander has to play has become more challenging than in other years. It is now up to the municipal authorities and other players to play their part. Alliander needs to do what is right. That will make the message in the report more reactionary in nature. The panel would nevertheless like to read more about the position adopted by Alliander. There is nothing in the report yet about such things as the Regional Energy Strategies, the implications of the Energy Transition (Progress) Act and the new players such as housing associations. Dilemmas could be brought into sharper focus. The examples of the connection of wind turbines in Flevoland 'at the lowest possible social cost' and the energy supply in the Marker Wadden that were discussed in the stakeholder meetings fire the imagination and are enlightening. They give Alliander colour and offer the reader an insight into the complex questions that the company has to deal with.

Treating stakeholders as partners

A great many of the report's readers partner Alliander in some way when it comes to the energy transition. The challenges facing Alliander are widely shared and can only be successfully addressed through partnership. These readers could be more closely involved in the Alliander narrative and what the organisation stands for. They would like to see categorically stated that Alliander is tackling the energy transition together with partners. In recent years, Alliander has been visiting the various municipalities and, last year, organised Masterclasses. What is it that readers can take away from that? And in what way can readers help Alliander? The report contains an open invitation to readers to say what they think about it but we would like to see this expanded to include a 'wish list' of topics, allowing the partnership to become more formalised.

Impact measurement

We note that Alliander made further progress during the year in the quantification of impacts, i.e. the effects that society experiences as a result of an organisation's operations. We appreciate Alliander's ambitions in this area. The effect this has on social capital comes particularly strongly to the fore this year. We recommend investigating on what impacts Alliander has a unique contribution to make. As with the selection of the SDGs, we would like to see evidence of the way in which Alliander uses these goals to guide its strategy and policy.

A final word

Alliander aims to achieve a high standard of reporting, and there have been considerable improvements in the report in recent years. We hope that our contribution will help to drive this improvement forward and prevent any tendency to plateau. Finally, we should like to thank Alliander for its attitude towards stakeholders, for the opportunity to give meaningful feedback on the draft versions of the annual report and for the substantive dialogue with the Executive Board.

On behalf of the stakeholder panel,

Yvonne Kemmerling – Chairman of the FutureCity foundation, public domain director and coach, project consultant Richard Liebrechts - Former partner at Ecorys and owner of Ripple-A

Karen Maas – Endowed Professor of Accounting and Sustainability at the Dutch Open University and Scientific Director of Impact Centre Erasmus (ICE)

Andre Nijhof– Professor of Sustainable Business and Stewardship, Nyenrode Business Universiteit
Dick de Waard – Professor at the University of Groningen, Course Director for Executive Master of Accountancy,
Course Director for ESG Assurance, owner/director of DAW 2.0

Lynn Zebeda – Member of the Liander's Board for the Future, co-founder of Dr. Monk

The stakeholder panel

The stakeholder panel that assists us with the annual report forms part of our structural stakeholder dialogue. We shared a draft version of the 2018 annual report with the panel members. The panel members responded in writing. Their input was discussed at greater length at a working lunch meeting on 19 December 2018. This meeting was also attended by our CFO Mark van Lieshout. The feedback was used to improve this report, and will also serve to further enhance the quality of our report. We have taken on board the panel's recommendation to invite readers to contribute. We have also given further details of our role in the energy transition and, where possible, address readers as partners in this transition. Finally, we have once again made improvements in the connectivity of the report, such as with a new connectivity table and the more explicit identification of the material themes covered in the stakeholder sections. The stakeholder panel is independent.

Perhaps you, too, would like to talk to us about the annual report or the themes confronting Alliander. We are open to dialogue and also regularly organise roundtable sessions with our stakeholders. Please contact us at communicatie@alliander.com.

Materiality test

Each year, Alliander takes a structured approach to deciding what topics should be covered by the annual report as a minimum. To do this we use a materiality test. Assessment of the material themes forms the basis for the contents of the integrated annual report and takes place at an early stage in the reporting process. The materiality test depends on a dual assessment: on the one hand, various stakeholder groups assess the relevance of different themes and we, on the other hand, make an internal assessment of what the impact of these themes is on the business and on the wider world.

In 2018, the new materiality analysis was performed at an early stage in the reporting process. The materiality test depends on a dual assessment: on the one hand, various stakeholder groups assess the relevance of different themes and we, on the other hand, make an internal assessment of what the impact of these themes is on the business.

The relevance from the stakeholders' point of view is determined by means of a digital questionnaire that is put before a representative group of stakeholder representatives. It is then determined what the magnitude of the impact of these themes is for Alliander and for society in general. The materiality score from the preceding year is taken into account in this assessment. The results of both the roundtable discussions with stakeholders and the poll of stakeholders are discussed with the Management Board. One of the conclusions to come out of this is that the topics that stakeholders find important are largely the same as the more important themes that Alliander is concerned about.

The process in five steps

For the 2018 annual report we have entirely reappraised our list the material themes using the following process.

Step 1: identification of relevant aspects and themes

The first step consisted in drawing up a list of social themes of relevance to the organisation, guided by a list of aspects such as included in the GRI Standards and the Electric Utilities Sector Supplement. This list is updated annually and, in addition to the GRI aspects, contains material themes from the preceding year, topics suggested by stakeholders and topics that are the concern of internal management. This year we revised the list of topics compared with 2017, reducing the number of material topics from 48 to 31, with the definitions, and therefore the scope of the topics, determined on the basis of an internal dialogue.

Impact on stakeholders

In 2018, the social themes were rated for relevance on the basis of a digital poll conducted among the stakeholders. The results of the online poll were grouped according to stakeholder group. The result is a summary prioritising the themes having the more significant impacts from the point of view of the stakeholders.

The results of the dialogues with stakeholders and the materiality test were then discussed with the Management Board. The conclusion was that the topics considered important by stakeholders are largely the same as the more important themes of concern to Alliander. There has been a change in the topics heading the list compared with the 2017 annual report, with various topics changing position. Amongst other things, the subdivision of the Energy Transition theme has yielded a more varied and precise picture.

Impact on Alliander

An assessment was made of all the social themes to determine the indicative impact they have on the organisation and on society at large. The internal prioritisation took place in a session led by outside professionals and attended by employees who together formed a broad representation of the various disciplines and departments within Alliander. During this session they determined the relevance of each theme in relation to its economic and social impacts as far as the company was concerned. This prioritisation of themes was finally compared with the materiality analysis from preceding years. The results were then submitted to Alliander's management for approval.

Step 2: weighting and comparison with 2017

For the materiality test, Alliander uses a weighted average over several years. Apart from the greater reliability afforded by this approach and the reduced sensitivity to hypes and measurement errors, the aim is to identify trends in the materiality of themes.

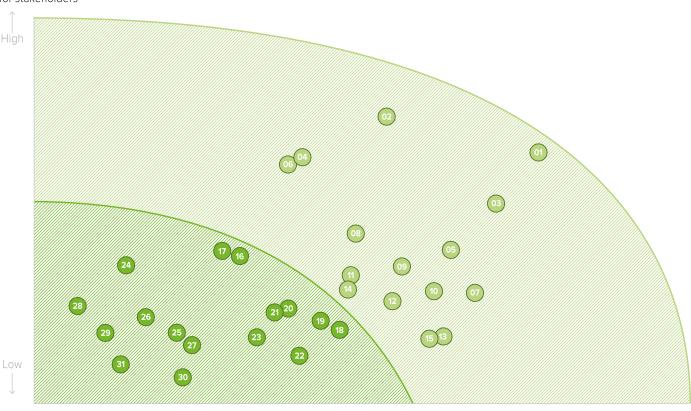
Step 3: GRI aspects of relevance to Alliander

The more material themes are associated with the Global Reporting Initiative indicators, a summary of which is included in the GRI Content Index. This summary guides the composition of the information contained in this annual report.

Step 4: materiality graph

The combination of the relevance of themes to stakeholders on the Y-axis and their impact on the organisation on the X-axis shows the impact of a particular theme on the organisation's social performance and therefore the priority accorded to it within the annual report. The materiality graph thus frames the more material topics for Alliander's annual report.

Significance of impact for stakeholders



Low

1 - 15

- 1. Safe and healthy working practices
- 2. Reliability of supply3. Safe infrastructure
- 5. Sale illiastructure
- 4. Innovative solutions
- 5. Satisfied customers
- 6. Promotion of renewable energy generation
- 7. Training and development
- 8. Data-driven network operation
- 9. Responsible communication and information
- 10. Corporate social responsibility in the chain
- 11. Responsible investment policy
- 12. Corporate governance and business ethics
- 13. Workplace well-being
- 14. Access to energy
- 15. Privacy and safety of data

- 16 31
- 16. Climate change, energy usage and carbon

Significance of impact on Alliander and society

- 17. Regulation and tariffs
- 18. Direct and indirect economic performance
- 19. Assurance of cybersecurity
- 20. Environmental impact
- 21. Risk management
- 22. Diverse and inclusive organisation
- 23. Strategic partnerships
- 24. Facilitation of energy storage
- 25. Responsible use of raw materials and Circularity
- 26. Collaboration and dialogue with stakeholders
- 27. Price of energy
- 28. Labour capacity
- 29. Public policy and lobby for appropriate laws and regulations
- 30. Social cohesion, local initiatives and quality of life
- 31. Digitisation and robotisation

Key themes

These are the 15 themes in the materiality matrix that stand out in the eyes of a large group of stakeholders and with respect to our performance. They are covered at length in the annual report.

Business themes

These are the themes considered not to have such high priority by a large group of stakeholders. They are themes that are relevant to just a few stakeholders or are reported because of their relevance to operations or because of legal requirements. They are not treated at length in the annual report but further information is disclosed in the GRI Content Index where necessary.

Potential themes

These are themes currently receiving a lower priority rating from the majority of stakeholders and having a lesser impact on the organisation. It is, however, quite possible for these themes to gain weight in the future so we monitor developments and keep tabs on them as necessary. In the case of a number of them, they are nevertheless included in the annual report for legal reasons or form part of the GRI index disclosures.

Step 5: implementation

The materiality of topics decided by the Management Board provides the basis for the organisation of the contents and for the overall management of the reporting process. Decisions are taken as to how the topics should be elaborated and what needs to be included in the information that is collected. The various parts of the business prepare the reporting process in conjunction with the responsible departments and agreements are reached on the validation and verification of data. For further disclosures regarding the reporting process, see 'About this report' and the GRI Content Index.

Material issues

This part of the report expands on the aspects relating to the material issues.

Reference list for material themes in the annual report

Health and safety: Employees - Safety/Fit and healthy employees

Reliability of supply: Customers - Pillar 4: Excellent network management

Safe infrastructure: Customers - Pillar 4: Excellent network management

Innovative solutions: Customers - Introduction

Satisfied customers: Customers - Customer convenience

Facilitation of renewable energy generation: Customers - Introduction/Pillar 1: Support for customers in making choices

Training & Development: Employees - Alliander as an employer

Responsible communication and information: Customers - Customer convenience

Corporate social responsibility in the supply chain: Shareholders and investors - Our sustainability performance Responsible investment policy: Shareholders and investors - How finance and sustainability go hand in hand Corporate Governance and business ethics: Corporate governance

Workplace wellbeing: Employees - Introduction/Fit and healthy employees/Alliander as an employer

Access to energy: Sustainable Development Goals/Customers - Introduction/Pillar 4: Excellent network management

Privacy and safety of data: Risks/Customers - Pillar 3: Digitisation

Health & safety

Input and correlations relevant to theme











Stakeholder expectation

Safe working practices are vital for all stakeholders. Employees expect a working environment where they can concentrate and work safely. Customers expect us to guarantee their safety during the performance of our work.

Our long-term objective

Everyone safely home! That is Alliander's safety ambition. In addition, Alliander promotes a culture where safety comes first. This culture can be described as: "Alliander wants to find out which safety rules are considered important, listen and learn, and take ownership. The responsibility for safety and regulatory compliance mainly rests with the senior management. Safety is a top-of-mind concern and that is appreciated."

Contribution from Alliander

Contribution from Alliander

Alliander applies the Safety Ladder. This tool helps us to improve the safety awareness and behaviour within our company. In 2018, 38% of our business units scored 3 or higher. In 2017, we conducted a large-scale safety audit to ascertain whether safety is well-organised and anchored within our organisation. We also investigated the exposure to hazardous substances, notably Chrome-6 and benzene. We also devoted attention to awareness about cybersecurity. In 2018, Alliander enjoyed a long period without any accidents leading to absenteeism. This helped Alliander to achieve an LTIF of 1.4.

Correlation with Alliander impact model: Human capital

Work-related accidents and sickness impair the wellbeing and happiness of those concerned. As an employer, Alliander always aims to make a positive contribution to the wellbeing of employees.

Correlation with strategy

Reliability

Risks

Safety

Stakeholder information

Safety and Fit and healthy employees in Employees chapter

Reliability of supply Input and correlations relevant to theme













Stakeholder expectation

Continuous supply of energy is of great social importance. Interruptions have a direct impact on the interests of our stakeholders. Customers demand immediate information about interruptions, as well as an indication of the estimated outage time.

Our long-term objective
We aim for a consistently low electricity outage duration of no more than 22 minutes per year. Our target for repeat outages is that the number of unique cable numbers with more than five interruptions remains a maximum of 17 in the coming years.

Contribution from Alliander

We work daily to secure a continuous energy supply, both now and in preparation for the future. We invested € 671 million in the quality of our networks to increase their reliability. Our outage duration was 30.6 minutes in 2018. The score for repeat outages was 17.

Correlation with Alliander impact model: Manufactured

The prosperity value of energy transmission for society is high and makes a strong contribution to the wellbeing of customers. Interruptions in the availability of energy lead to a relatively strong impairment of customer wellbeing.

Correlation with strategy

Safety, long-term regulatory focus, required capacity and competences, anticipating and keeping up with the energy transition, cybercrime

Safety, availability of technical staff in labour market, insufficient long-term regulatory focus, required competences, facilitation of energy transition, cvbercrime

Stakeholder information

Reliability of supply in Customers chapter

Safe infrastructure

Input and correlations relevant to theme













Stakeholder expectation

Customers expect us to ensure a safe infrastructure and to guarantee their safety during the performance of our work. The safety of networks for everyone involved is our highest priority. To safeguard against possible incidents in the gas and electricity grids, a targeted approach is key.

Our long-term objective

Alliander always puts safety first: this applies to our own people, but also to the quality and reliability of our infrastructures and installations. That is why we continuously invest in the reliability of our infrastructure. A safe working environment is a precondition for a safe infrastructure, also for other stakeholders. The objective is a 100% score for our active safety culture.

Contribution from Alliander

In 2018, Alliander invested about € 671 million in the reinforcement, digitisation and maintenance of our networks. We completed 52% of our digitisation projects. Furthermore, our staff received calamity and incident response training in order to be well-prepared for unforeseen events that impact on, for instance, our infrastructure. In Amsterdam, we carried out an in-depth investigation into the large-scale outage in 2018 in order to learn lessons and make our infrastructure even safer.

Correlation with Alliander impact model: Human capital

Safety incidents that occur in our surroundings due to our operational activities have a negative impact on the wellbeing of society.

Correlation with strategy

Reliability

Risks

Safety

Stakeholder information Safety in Employees chapter

Safe infrastructure in strategic pillar 4: Excellent network management in Customers chapter

Innovative solutions

Input and correlations relevant to theme













Stakeholder expectation

To keep up with the changing energy landscape and be ready for future developments, it is vital that we are able to apply new technologies, working methods and solutions. Customers expect flexible and reliable networks, enabling them to feed in energy whenever they want.

Our long-term objective

Technical and economic developments make new solutions both feasible and necessary. Alliander wants to do its bit by facilitating the energy transition. Our objective is to have offered all customers a smart energy meter by 2020.

Contribution from Alliander

The energy transition demands new and smart applications for the energy networks. Alliander invests in these smart technologies to facilitate the networks. Alliander invests in these smart technologies to facilitate the transition to a sustainable society, while continuing to guarantee reliability of supply. In 2018, the amount of solar and wind energy that customers fed into our network increased strongly. In addition, we started a major pilot for smart e-vehicle charging and made improvements for better network management. We also started a flexibility market in Nijmegen-Noord to gain experience matching the supply and demand of energy in case upgrading the network in the short term is not possible or recommended. Through our business operations, we are discovering new markets. Realisation of planned smart operations, we are discovering new markets. Realisation of planned smart meter offering in 2018: 644,000 smart meters offered.

Correlation with Alliander impact model: Intellectual capital

Technology, new market models and platforms contribute to positive intellectual capital. We want to track and analyse the exact social effects in greater detail

Correlation with strategy

Accessibility

Long-term regulatory focus, required capacity and competences, privacy of energy data, anticipating and keeping up with the energy transition

Stakeholder information

Customers

Satisfied customers

Input and correlations relevant to theme













Stakeholder expectation

Customers count on excellent service, communication and handling of interruptions, questions and complaints. Municipalities and business customers expect a clear point of contact and that we deliver on our commitments. We respond adequately to customer needs and actively promote customer satisfaction. Via Liander.nl and our telephone customer service. Stakeholders can report complaints or malpractices relating to our company and activities carried out in our name.

Our long-term objective

The objective for our customer convenience for business customers and consumers is 46% and 51% respectively. Customer convenience will rise further in the coming years and will remain higher than the national benchmark of Dutch network operators.

Contribution from Alliander

We work daily to secure a continuous energy supply, both now and in preparation for the future. The quality of our services and communications visa-vis business customers and municipalities was improved. Our digital services were improved for all our customers thanks to our continuous online accessibility and short response times. The website experience for consumers and business customers was also further enhanced. Our performance was above the benchmark for business customers, and just below the benchmark for consumers. Customer convenience measured by the NES score is higher than 51% (consumer market) and 46% (business market). Result for consumers is: 50% and business customers: 38%.

Correlation with Alliander impact model: Manufactured capital

Satisfied customers strengthen the sense of wellbeing derived from the availability of energy. A decrease in satisfaction rating has an impact on the consumer surplus.

Correlation with strategy

Reliability

Required capacity and competences, privacy of energy data, anticipating and keeping up with the energy transition

Stakeholder information

Customer convenience in Customers chapter

Facilitation of renewable energy generation Input and correlations relevant to theme













Stakeholder expectation

Consumers and businesses are increasingly generating their own energy. Network operators are not permitted to distinguish by customers and their energy choices. As we advance towards the new energy system, energy generation based on fluctuating sources such as solar and wind is becoming increasingly important. In this context, we participate in pilots together with other parties, such as suppliers and consumers, in order to learn practical lessons. Customers expect us to help them make new energy choices

Our long-term objective

All municipalities must complete their district-by-district plan for the transition from gas to clean energy by the end of 2021. Alliander is assisting in the problem-solving and planning process with its knowledge and experience of existing energy networks in order to avoid suboptimal choices and unnecessary costs for society. Alliander wants to connect all new local generation in our regions on a year-to-year basis.

Contribution from Alliander

Alliander wants to respond actively to the changing energy landscape and future developments. In 2018, we tried out smart charging and smart design solutions on testbeds in order to gain experience with these innovative technologies together with customers and other partners. We also engage in business activities in the field of heating and help customers make responsible energy choices.

Correlation with Alliander impact model: Manufactured capital, natural capital

Renewable energy feed-in has a positive effect on customer wellbeing. An increasing share of renewable energy leads to a reduction of carbon emissions in the supply chain.

Correlation with strategy

Accessibility

Required capacity and competences, long-term regulatory focus, anticipating and keeping up with the energy transition

Stakeholder information

Strategic pillar 1: Support for customers in making choices in Customers

Training & Development

Input and correlations relevant to theme











Stakeholder expectation

Technology and organisations are changing continuously and at a rapid pace. Working has become lifelong learning. Alliander offers education and training to enable employees to stay fit and on top of their job. Alliander is a company that works hard to promote training and development.

Our long-term objective
We aim to invest 3% of the wagebill in employee training. We offer 100 apprenticeships to people at a distance from the labour market We want to meet the statutory labour participation quota by 2024.

Contribution from Alliander

To find solutions for the energy issues of today and tomorrow, we invest a lot. In technology and, above all, in our people. We offer excellent compensation and benefits. And we offer excellent training. To help our employees get the best out of themselves. That is good for them and good for the company. Employees are actively encouraged to develop their professional and personal skills with a range of training and development opportunities. Special attention is devoted to safety training for specialist roles or roles involving specific risks. Last year, Alliander welcomed more than 600 new employees, including 300 new technicians. And ten recruits with residency status received training to carry out installation and maintenance work on the electricity grid. In 2018, Alliander invested 3.4% of its wagebill in employee training (2017: 3.3%).

Correlation with Alliander impact model: Human capital

Employee development has a positive impact on human capital, also outside

Correlation with strategy

Accessibility, reliability

Risks

Required capacity and competences, anticipating and keeping up with the energy transition, safety

Stakeholder information

Recruitment in Employees chapter

Data-driven network management Input and correlations relevant to theme













Stakeholder expectation

The use of IT makes it possible to manage fluctuations in energy supply and demand and respond to evolving market relationships in a reliable, efficient and safe manner. Smart networks and data technology help us to make targeted and effective investments in networks as well as to prevent outages and repair faults faster. Customers expect a network that enables them to feed in energy without any problem. They also expect us to make the network more reliable and transparent by means of innovative technology

Our long-term objective

Alliander's objective for 2018 is to implement 95% of the most important digitisation programmes within Alliander. The aim of these programmes is to construct intelligent networks and offer smart meters. This is included in Liander's activities plan.

Contribution from Alliander

We are working at various locations to make our energy networks smarter. These initiatives include the integration of smart technology into medium-voltage stations, the roll-out of a switching system for public lighting, the large-scale roll-out of smart meters and the implementation of ICT applications and sensors for managing the flexible flow of energy. Smart networks support a seriors of managing the lexible new of earleys. Siniar networks support a more efficient use of capacity and infrastructure, and are also more reliable. By expanding our smart energy networks, we are laying the groundwork for the digital services of the future. We had set ambitious digitisation targets for the year under review, precisely because this is such a crucial development. One target was to complete 95% of our digitisation programmes, but we only managed to complete 67% managed to complete 52%.

Correlation with Alliander impact model: Intellectual capital

The development of more and better data contributes to the social and intellectual capital as well as to more efficient and cleaner production.

Correlation with strategy

Accessibility, reliability

Privacy of energy data, cybercrime, required capacity and competences

Stakeholder information

Strategic pillar 3: Digitisation in Customers chapter

Responsible communication and information Input and correlations relevant to theme











Stakeholder expectation

Good communications and information are important to enable our customers to take full advantage of our services.

Our long-term objective

We apply measures to support access to energy and promote safe energy

Contribution from Alliander

We use plain language. This means:

- We write as we speak and the message is clear to the reader right away. We use pictures for stronger and simpler communication.
- As a rule, we communicate in Dutch. But if appropriate and relevant for a large group of customers, we also communicate in other languages
- Our colleagues at our customer contact centres are trained to use plain
- In addition, if segmentation shows that a large and significant proportion of the target group of an important message speaks another language, we communicate in that other language. To date, we have used English and Arabic
- The pages on smart meters, for instance, are also available in English (https://www.liander.nl/smartmeter).
- If a crisis occurs in the gas grid, we communicate in Dutch and English for safety reasons.

Correlation with Alliander impact model: Social capital Communication and information can contribute to more efficient and safer energy usage and to a better understanding of products and service. This has a positive impact on our stakeholder appreciation.

Correlation with strategy

Reliability, affordability, accessibility

Reputation loss

Stakeholder information

Corporate governance

About this report

Materiality test

Corporate Social Responsibility in the supply

Input and correlations relevant to theme













Stakeholder expectation

With an annual procurement volume of about € 900 million, we are a major purchaser of products and services in the Netherlands. Stakeholders expect us, together with our suppliers, to ensure that our procurement is as sustainable as possible. If we can persuade our suppliers to take sustainability as seriously as we do ourselves, we can generate a significant positive impact through our supply chain.

Our long-term objective

We actively seek to improve our supply chain performance. This includes making plans with our suppliers to reduce carbon emissions and promote responsible operations. Our objective is to purchase at least 10% of our procurement volume based on circular principles. In addition, all suppliers must meet the Alliander Code of Conduct.

Contribution from Alliander

As well as maintaining continuous awareness of our compulsory Code of As well as maintaining continuous awareness of our computatory code of Conduct among all suppliers, we purchased 16.5% of our procurement volume based on circular principles in 2018. In doing so, we support the achievement of our socially responsible procurement objective in the Netherlands, while also promoting further sustainability among our suppliers through our Socially Responsible Procurement statements. Outsourcing, investments and production in other countries sometimes lead to an increased risk regarding the recognition and observance of norms in such areas as fundamental human rights, safety and the environment. The assessment of suppliers in the supply chain is part of our CSR and procurement policy.

Correlation with Alliander impact model

Manufactured capital, natural capital

Correlation with strategy

Reliability, affordability, accessibility

Reputation loss

Stakeholder information

Our sustainability performance in Shareholders and investors chapter

Responsible investment policy Input and correlations relevant to theme













Stakeholder expectation

Stakeholders expect a clear picture of the value that Alliander realises and stable financial results. Sustainable value creation is an increasing priority for them. As a large company, we can support social developments through investments, for example in a sustainable energy system.

Our long-term objective
The key aim of our financial policy is to at least maintain a solid A rating profile. This is vital to implement our strategy and play a facilitating role in the energy transition.

Contribution from Alliander

In 2018, we invested a total of \in 671 million in our networks. In doing so, we created sustainable value for our stakeholders and retained our solid A rating. In the interests of our providers of capital, we seek to strike the right balance between an adequate shareholder return and the protection of bond holders and other providers of debt capital, while preserving the flexibility to invest

Relationship with Alliander impact model: Financial capital

A high rating has a favourable impact on our investment costs such as interest rates and facilitates our access to the capital market.

Correlation with strategy Affordability

Risks

Financial risks

Stakeholder information

- Shareholders and investors
- Financial statements
- Regional information

Corporate governance and business ethics Input and correlations relevant to theme













Stakeholder expectation

Stakeholders must be able to trust us to take their interests into consideration in a careful manner. Good corporate governance, adequate supervision and transparent accountability are essential to ensure stakeholders' trust in the management and supervision. Accordingly, management must act with integrity and transparency and the Supervisory Board render account of its supervision. This is crucial in view of our vital role in society.

Our long-term objective

Our Code of Conduct 'How we do things at Alliander' sets out guidelines for our daily work. These are based on the Alliander core values: together, smart and sensitive. We expect every employee to adhere to this Code of Conduct. We call each other to account and help each other when necessary. Our 'together, smart and sensitive' approach means that we must comply with the government's rules. In addition, we, as Alliander, have drawn up additional guidelines to make it clear what we expect from employees. The 'How we do guidelines to make it clear what we expect from employees. The now we do things at Alliander' e-learning programme helps employees to improve their integrity awareness. All employees must be offered this programme in phases. To keep them aware of and up-to-date on new cases, they receive a new invitation from time to time to refresh their knowledge to a level of 70%.

Contribution from Alliander

Alliander is committed to good governance and to making choices in the interests of all our stakeholders. In this endeavour, we are guided by our mission, core values and code of conduct. Adequate and effective supervision is performed by the Supervisory Board based on clear guidelines. We comply with the Dutch Corporate Governance Code wherever possible and applicable. In doing so, we emphasise our responsibility for the social aspects of entreprenumble. of entrepreneurship.

Correlation with Alliander impact model: Social capital By working on better institutions and regulatory adjustments, we help to optimise the energy sector's impact.

Correlation with strategy

Reliability

Risks

Stakeholder information

Corporate governance

Workplace wellbeing

Input and correlations relevant to theme













Stakeholder expectation

Alliander's employees must be able to carry out their work under pleasant, manageable and healthy conditions.

Our long-term objective Alliander employs about 6,800 FTEs. Together, they secure a reliable, affordable and accessible energy supply. We offer our employees a safe and healthy working environment that they can be proud of. Every year, we seek to achieve an employee satisfaction score of 75% and an absenteeism rate of less than 3.9%.

Contribution from Alliander

We are aware that the energy transition and technological innovations such as robotisation and digitisation are advancing at an accelerating pace. As a result, roles change or disappear, while new ones emerge. This poses many challenges for our people. In 2018, we saw our absenteeism rate rise to 4.7%. For us, this confirms the need to maintain a constructive and frank conversation with our employees about long-term employability. Alongside this conversation, we offer other instruments such as the employability budget to help employees stay healthy and energetic for the long term. The employee satisfaction score for 2018 was 70% versus 71% in 2017.

Correlation with Alliander impact model: Human capital

Workplace wellbeing is closely linked to the absence of sickness and work-related accidents. Being in work has a positive effect on the wellbeing of employees in terms of increased self-esteem, independence, social life and social status.

Correlation with strategy

Accessibility, affordability

Risks

None

Stakeholder information

Employees

Access to energy

Input and correlations relevant to theme













Stakeholder expectation

Energy is a basic need for our everyday lives. That is why being connected to energy is a major priority. Amidst the ongoing transformation of the energy system, it is vital to ensure that everyone retains access on equal terms.

Our long-term objective

Ensuring that the transition to renewable energy is realised in a controlled manner so that the energy system of the future remains affordable, reliable and accessible to everyone on equal terms. We work hard to live up to our pledge to connect all customers within the statutory 18-week term. We are aiming to make heating transition arrangements with all municipalities and housing associations in our service areas by 2022.

Contribution from Alliander

We adhere to national arrangements not to disconnect households during wintry conditions. We work together with municipalities and partners on regional energy arrangements. Where gas-free solutions are chosen, alternatives are provided.

Correlation with Alliander impact model: Manufactured capital

Gas, heating and electricity transmission make a significant contribution to our social value by enhancing the wellbeing of consumers in multiple ways, such as the ability to heat their homes, use household appliances, and travel by

Correlation with strategy

Accessibility

Long-term regulatory focus, anticipating and keeping up with the energy

Stakeholder information

Strateav

Customers

Shareholders and investors

Privacy and safety of data Input and correlations relevant to theme













Stakeholder expectation

Stakeholders expect us to use their data and personal details safely and carefully. Data exchange has become a permanent part of our social and economic system. Data exchange and storage of privacy-sensitive information require maximum protection at all times.

Our long-term objective
Alliander respects the privacy of employees and customers. This means that we exercise due care in using their personal data and treat them confidentially. We meet the requirements set out in the General Data Protection Regulation (GDPR). Customers and employees can trust Alliander to protect their personal data.

Contribution from Alliander

Contribution from Alliander

We are obliged to meet statutory requirements for all personal data that we process (or intend to process). Pursuant to the GDPR, we have appointed a Data Protection Officer for Liander customer data. He is responsible for monitoring GDPR compliance within the organisation. In addition, we set up a data processing register in 2018 to document all our personal data processing activities. Finally, we use Data Protection Impact Assessments (DPIA) to perform prior risk assessments whenever necessary due to the quantity or sensitivity of the data being processed. Via liander.nl, customers can make use of their rights in this field, such as the right of access, erasure or restriction of processing. of processing.

Correlation with Alliander impact model: Social capital, manufactured capital

The safety and privacy risks inherent in the management of personal data by Alliander and the energy suppliers have a potentially negative impact on our social capital. The assets/systems for the mitigation of cybercrime and hacking risks make a positive contribution to our manufactured capital.

Correlation with strategy

Reliability

Financial risks, reputational risk, privacy of energy data

Stakeholder information

Employees

Notes to the SDG'S

Affordable and sustainable energy



Explanation

"Ensure access to affordable, reliable, sustainable energy for all"

Alliander's contribution to SDG 7 in the long term*

- Being able to connect all the new decentralised generation capacity (distributed generation) in our areas.
- Make heating transition arrangements with all municipal authorities and housing associations in our service areas by 2020
- A maximum outage duration of 22 minutes
- Investing in flexible solutions to avoid capital expenditure on the network.

Actions and policy

- Alliander aims to keep costs as low as possible for the customer and to share costs as fairly as possible
- Alliander facilitates the energy transition, for instance by offering open and sustainable district heating networks
- Innovations avoiding the need for capital expenditure on the network
- Actively improve the energy efficiency of our own operations
- Offer insight into energy usage with smart meter and options for meter applications
- Participation in international initiatives aimed at knowledge sharing and technology development and application

Our results in 2018

- Outage duration is 30.6 minutes
- Smart meters offered to 644,000 addresses

Impact

- Economic added value
- Climate change and resource depletion

 $^{*}\mbox{We},$ at Alliander, contribute mainly to the following SDG sub-targets: 7.1, 7.2, 7.3, 7.4 and 7.5

GRI Standards - Climate change, energy consumption and CO_2 (GRI 302), Regulation and tariffs (own indicator) / Reliability of supply (own indicator)

Sustainable cities and communities



Explanation

"Make cities and communities inclusive, safe, resilient and sustainable"

Alliander's contribution to SDG 11 in the long term*

- Provide adequate feed-in capacity
- Provide underlying infrastructure and capacity for EV charge points

Actions and policy

- Help all municipal authorities to set up Regional Energy Strategies
- Improve air quality by facilitating clean electric transport
- Introduce and apply flexible pricing (e.g.: pay per use)
- Make Alliander a zero-energy company
- Research into replacing gas

Our results in 2018

 Offering technical support to all municipal authorities for the preparation of energy strategies

Impact

- Economic added value
- Climate change and resource depletion
- Cooperation in districts and neighbourhoods

*We, at Alliander, contribute mainly to the following SDG sub-targets: 11.3, 11.6 and 11.a $\,$

GRI Standards - Safe infrastructure, GRI 201: Economic performance, Transparency (GRI 415) / Investment policy (EU6) / Role of energy generation (Own indicator)

Responsible production and consumption



Explanation

"Ensure sustainable consumption and production patterns"

Alliander's contribution to SDG 12 in the long term*

 Goal of achieving 100% climate-neutral and circular operations

Actions and policy

- Make use of existing assets for longer and possible replacement of assets using recycled materials
- Circular network operator: draw up a definite roadmap for circular operations
- Expansion and further operational integration of raw materials passport
- Transparency on sustainability information
- Climate-neutral in 2023
- Cooperation and participation in Green networks and Dutch infrastructure companies
- Sustainable procurement

Our results in 2018

- At least 16.5% of our procurement is based on circular principles
- Our carbon footprint fell from 416 to 288 kt

Impact

Climate change and resource depletion

 * We, at Alliander, contribute mainly to the following SDG sub-targets: 12.2, 12.5 and 12.6

 $\mbox{\bf GRI Standards}$ - Climate change, energy consumption and $\mbox{\rm CO}_2$ (GRI 305), Supply chain responsibility (GRI 301/414, own indicator),

Decent work and economic growth



Explanation

"Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for everyone"

Alliander's contribution to SDG 8 in the long term*

- Offer 100 apprenticeships a year for people covered by the Dutch Participation Act or otherwise at a distance from the labour market.
- By 2024, 33% of our managers are female
- Zero accidents resulting in time off work and sickness absence under 3.9%

Actions and policy

- Lifelong training and education for all our employees
- High-level safety ladder
- Finding work via step2work
- Raising health awareness among employees (e.g. Alliander Fit)
- Diversity and inclusion: encourage the recruitment of women in leadership positions, members of non-western ethnic groups and people at a distance from the labour market

Our results in 2018

- Offer 95 apprenticeships to people at a distance from the labour market
- 28.8% of all leadership positions are filled by women
- Sickness absence rate of 4.7%

Impact

Well-being of our employees

*We, at Alliander, mainly contribute to the following SDG sub-targets: 8.2, 8.5

GRI Standards - Safe infrastructure & Occupational health and safety (GRI 403), Training and Education (GRI 404), Economic performance (GRI 201)

Interaction with stakeholders

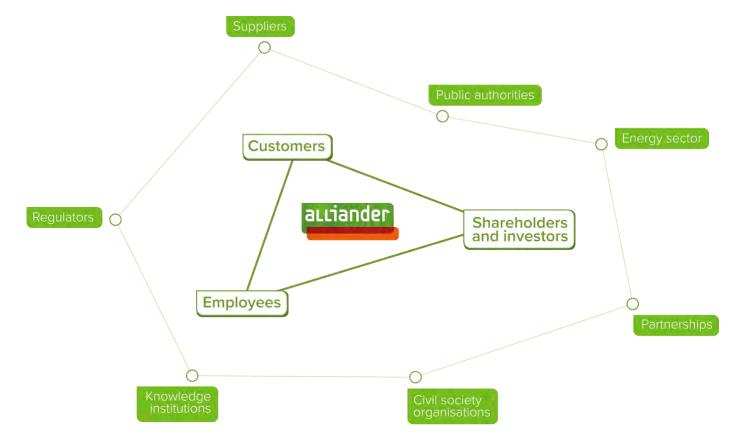
Based on high-impact themes, we regularly seek to identify suitable parties for Alliander's dialogue. Engagement, size, willingness to enter into dialogue and expertise are crucial considerations in this respect. We aim to find a common approach to issues, create support for initiatives, build trust and devise solutions with added value. Both for the short and long term. We talk to customers about their energy requirements on a daily basis. Together with our shareholders we look at ways in which we can contribute to sustainable solutions. And together with our employees we look how we can be an employer that matters. Together with all our stakeholders, we are moving forward towards the energy supply of the future.

Anybody or any group that is affected by our actions or that has an influence on our organisation or services we consider to be stakeholders of ours. We keep a constant check on who our stakeholders are. Whether on projects or concerning certain topics, they may have a relevant contribution to make and we involve them.

The nature of a number of our relationships with stakeholders is governed by the statutory and regulatory environment (government ministries, politicians and industry regulators) and by cooperation in the supply chain (energy sector), but also by the public nature of our service (customers, municipal authorities, media and pressure groups). Responsibilities for stakeholder management are formalised and the CSA department coordinates the strategic stakeholder management and decides which organisations and stakeholder representatives we actively engage with.

The Alliander stakeholder model comprises three stakeholder groups. A distinction is made between:

- key stakeholders: customers, employees and shareholders & investors;
- other stakeholders such as: suppliers, knowledge institutions, regulators and civil society organisations.



Contacts

We conduct the dialogue with stakeholders on both an ad hoc and a structured basis. This includes the organisation of customer panels and shareholder consultations as well as meetings with the Works Council. Supplier days, knowledge and partner meetings and participation in network organisations are important forms of contact with stakeholders. We are in regular contact with politicians in the Netherlands and at the European institutions, and we also liaise with regulators. In 2018, the Executive Board attended masterclasses and a relationship evening that we organised in order to engage in the dialogue about the challenges for the energy supply of the future. We spoke with many local government representatives to discuss ambitions and choices in the light of climate objectives and the energy transition.

Interaction with stakeholders

Stakeholders	Organisation or platform	Type of interaction	Items for discussion	Reference
Stakeholder Customers Consumer	Customer contact web panelCustomer surveyCustomer ombudsmanCustomer panelsConsumer organisations	Digital panel Quantitative survery (4 times a year) Complaints and mediation (on a case-by-case basis) Qualitative survey (miscellaneous) Dialogue Consumer Association, Home Owners' Association	Collaboration, relationship management, dialogue, improved service	Customers
Business customers	Sector organisationsEnergy cooperatives	Dialogue and relationship managment (including VEMW, Uneto VNI, Bouwend Nederland, VNO NCW)	Collaboration, dialogue, improved service	Customers
Stakeholder Employees	Employee surveyEmployee representationYoung employee network - TensionFemale employee network - LianneLGBT network - Pride Staff associationFoundationTrade unions	Quantitative survey (quarterly)Formal consultation (monthly)Dialogue/ workshops/ meetingsDittoDitto Employee associationEmployee voluntary workRegular consultation on employment terms and conditions	Participation, dialogue, employee involvement and initiatives, formal discussion on employment terms and conditions	Employees
Stakeholder Shareholders and nvestors	Stakeholder Provinces and Municipalities	General Meeting of Shareholders (at least once a year)Majority shareholder meeting (3 times a year)Company visits, management consultation, individual contact. Two-yearly reputation survey Regular Newsletter	Formal, informal consultation, knowledge and insight activities	Shareholders and investors
	Lenders, investors and credit rating agencies	Regular consultation and report on financial performance (regular)	Accountability and commentary	Financial
Social stakeholders Public authorities	Central government and European Union	Consultation, discussions, exchange of views (projects, ad hoc)	Expression of interest and proactive dialogue	Shareholders and investors
ublic authornes	Provinces and Municipalities	Consultation, collaboration, projects (including IPO and VNG)	Alignment of climate and environmental plans and projects	Shareholders and investors
Politics	Both houses of Dutch parliament, ministeries	Relationship management, working visits, pro-active and reactive provision of information. Two-yearly qualitative survey	Provision of information in general sense and on specific topics	All stakeholders
Regulators	Netherlands Authority for Consumers and MarketsNetherlands Authority for the Financial MarketsNetherlands Data Protection AuthorityEU Regulatory authorities	Regular meetings on current topics and issuesStandard and ad hoc information requests	Inform, exchange and explain	Customers
	State Supervision of Mines Dutch Safety Board	Regular meetings on current topics and issuesStandard and ad hoc information requests	Inform, exchange and explain	Customers
Energy sector	Cedec, CogenEnergieNederland Energy producers/suppliers Energy Storage Netherlands European Distribution System Operators for electricity (Edso) Eurelectric, Eurogas, ENCS IGU, IEA Flexible power Alliance Network (FAN)Netbeheer Nederland Nedu TenneT WENb Employer Association	Board participation (monthly) Working groups (monthly) Stichting E-laad (continuous)	Exchange of know-how, partnerships, representation of interests, cooperation	Customers
Suppliers	Contractors and industry Suppliers of goods and services	Contractors' daySuppliers' daysTheme-based consultations Consultation on responsible purchasing	Cooperation, Relationship management, Dialogue	Financial
Knowledge institutions	Educational and knowledge organisationsSustainable Electrical Energy Center of Expertise	Cooperation with Radboud University, HAN, ROCs. Universities of Technology in Delft, Eindhoven and Twente.	Knowledge exchange and partnerships	Employees
Media	National and regional media	Relationship management, proactive provision of information, crisis communications. Qualitative survey (every two years).	Information, positioning	All stakeholders
Civil society organisations	Natuur en MilieuNudgeStichting de OpkikkerNederland Cares	Consultation and dialogue about project design, volunteer work (projects, ad hoc)	Facilitate renewable energy supply	Customers
	Housing associations, property developers and businesses	Discussions, participation in associations and foundations (frequent)	Participation, Dialogue and relationship management	Customers

Partnerships

Amsterdam Economic Board, Economic Board Arnhem NijmegenEuropean Energy InformationSharing & Analysis CentreFoundation rural energy servicesGlobal Gas Network Initiative Global Intelligent Utility Network coalitionGlobal Smart City & Community Coalition Global Reporting Initiative Groene Zaak Kenniskring Amsterdam Hier Klimaatverbond Nederland Milieu Centraal MVO NederlandNederlandse vereniging duurzame energieOpen compliance and ethics groupSmart Energy Collective Stichting de EnergiebankStichting New Energy CoalitionStichting USEFThe Open Global Data Management CommunityUrgendaVereniging Eigen HuisVereniging

Board membership, meetings, sponsoring, strategic partnerships

Collaboration with knowledge institutions, businesses and authorities, sustainability promotion, new models for innovation and societal development

Customers

Externally developed economic, environmental and social charters, principles or initiatives that Alliander supports or endorses.

Alliander subscribes to

In 2018, we participated in the following Dutch social initiatives

- ILO Conventions
- OECD guidelines
- Sector-wide employment arrangement
- Draft climate agreement

Nederlandse GemeentenWoman CapitalWorld Economic Forum

- Circular Procurement Green Deal
- Charter Talent to the Top, Charter Diversity in business
- Manifest Sustainable Development Goals and LGBTi
- · Collective labour agreement for network companies

SWOT

Alliander is an attractive employer, and is active as a sustainable partner in the energy market. Partnership at local and regional level is essential in order to address the challenges facing our organisation. As in 2017, we further intensified our relations with municipal authorities in our service area, including organising a series of masterclasses for municipal authorities. In implementing our strategy we run up against a number of challenges within our organisation. One such is the shortage of technically qualified staff. To address this we are engaged in an extensive recruitment campaign and are seeking to involve partners in the sector as well as educational institutions. We also recognise that we cannot act too quickly when it comes to things like customer queries. In this regard, our efforts are geared to operational excellence. Another thing is that our CO₂ emissions are high, partly due to the grid losses inherent in energy distribution. On a large number of activities, we aim to be carbon-neutral by 2023. Finally, there are the inevitable threats as well, such as the unpredictability of the energy transition and the speed at which it is likely to occur, cybercrime and a changing regulatory environment. These threats and what we are doing to address them are described in greater detail in the risk information.



Strengths

- Security of energy supply
- Solid financial position
- Good employment practices
- Sustainable partner
- · Central position in energy system



Weaknesses

- Speed of development of technical competences
- Limited adaptability of business processes
- Carbon emissions relating to business processes



Opportunities

- Development of Regional Energy Strategies (RES)
- Application of smart solutions and innovation to reduce workload and investments in the network
- Cooperation with parties to achieve the heating transition
- Make knowledge and tools available to customers and other network operators



Threat

- Discussion about market organisation
- Cybercrime and energy data privacy breaches
- Insufficient long-term regulatory focus
- Technical skills shortages
- Anticipating and keeping up with the energy transition

Most important impact measurement criteria

Most important criteria

Most important criteria

The impacts were classified using the value creation model of the International Integrated Reporting Council (IIRC), which subdivides impacts into six types of capital: Financial, Manufactured, Intellectual, Natural, Social & Relationship and Human Capital. We have currently quantified Financial, Manufactured, Natural and Human Capital. In the coming period we will continue to develop processes for quantifying the other types of capital.

The relevant impacts that we have identified are reported as fully as possible.

Impacts are quantified in terms of money (euros) by estimating the sum of the individual impacts on wealth and well-being. Wealth is broadly defined to include all the most relevant impacts on wealth that we have identified. This broad definition also refers to the wealth of people today and later, both in the Netherlands and abroad.

The methods used to calculate the impacts are based on techniques that are commonly applied in scientific and social practice, including the Natural Capital Protocol of the NCC (2016), the Environmental management - Life cycle assessment - Principles and framework ISO (2010) and the General Guidance for Social Cost-Benefit analysis of the CPB. As indicated, further details are available online.

Since Alliander operates in a regulated market and forms part of a broader value chain, impacts are attributed to Alliander based on the attribution method described below.

The wealth effects are conservatively estimated where a choice must be made between various equally reasonable assumptions. Two assumptions are equally reasonable if they are equally acceptable on the basis of the applied criteria and scientific practice and are equally plausible in the eyes of experts. This means that if several equally reasonable assumptions are possible, the assumption resulting in the lowest estimated wealth impact is chosen.

Most important reporting criteria, principles and assumptions

Main principles and assumptions

Attribution

Impacts that are caused by multiple players in the supply chain are attributed to Alliander on the basis of its gross added value in the supply chain. The gross added value is calculated as revenue less goods and services used in production, valued at purchase price.

Impacts that Alliander realises independently are entirely attributed to Alliander.

For comparison purposes, the attribution value from 2018 is also applied for the 2017 impact

Financial capital

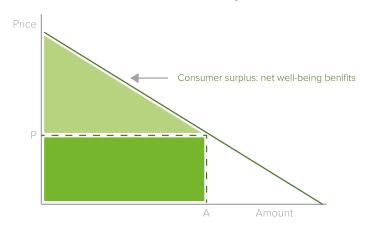
The financial impacts are viewed from the perspective of cash flows to and from society: cash outflows from Alliander are positive impacts for society; Alliander's cash inflows are negative impacts for society.

Manufactured capital

The wealth value of energy transmission is calculated on the basis of the consumer surplus. This is the extra value that customers are in theory prepared to pay on top of the regulated price for a service or product. The consumer surplus is currently the most common method for determining economic value, both for liberalised and regulated markets. The consumer surplus relates to all price elements in the energy value chain, including the taxes and prices for the supply and transmission of energy. The amounts presented as manufactured capital indicate the economic part of the energy value chain that is attributable to Alliander. The impact of Alliander that makes 'feeding energy' possible consists primarily of the financial impact of using solar panels (PVs) and enhanced well-being from the use of greener energy. The average impact of gas and power failures for the Netherlands is included in this estimate as the price elasticity is based on the actual demand for energy (including failures). The specific impact of gas and electricity failures for Alliander was calculated for 2018 and extrapolated for 2017. The impact of interruptions in the energy transport on the well-being of consumers is related to interruptions in the electricity network and in the gas network.

In the adopted economic model, price elasticity assumptions were made. The gas and electricity price elasticity curve is assumed to be linear. This produces a conservative estimate of the consumer surplus, which is visualised in the figure below.

Demand for electricity



External component: the net well-being value of electricity transport on top of the price that households pay

Internal component: the part of the value for which households compensate Alliander in the form of revenue

The slope of the curve that has an impact on the consumer surplus was determined on the basis of a study by CE Delft (2012).

In order to avoid double counting, the contribution of energy transmission to the wealth of business customers consists exclusively of the revenue component, without adding the producer surplus of customers.

Natural capital

Alliander is partly responsible for the CO_2 emissions from the quantities of electricity and gas transported through its network. The impact includes the measurement of the CO_2 emissions associated with the direct operations and those of the chain. Emissions in the chain are attributed to Alliander on the basis of gross added value.

Alliander's electricity mix ratio (comprising oil, gas coal and nuclear power) is assumed to be equal to the national electricity mix.

The social costs of a tonne of CO_z -eq are estimated on the basis of a study of the U.S. Inter-Agency Working Group of the EPA (2013). This study is in our view still relevant because most climate change effects have yet to take place. This means that the costs of a tonne of CO_z -eq have not changed between 2013 and 2016. We have, however, adjusted the costs for inflation based on World Bank data. Adjustment 2018 = 1.38%, adjustment 2017 = 0.32%, on prior-year basis.

The scope for the Eco cost materials indicator is based on the four largest network component categories: cables, gas pipes, transformers and smart metres. The materials included in the analysis are: the copper, aluminium, PE, PVC, XLPE, transformer oil, tin-plate, steel and scarce materials in the smart metres, as defined in the raw materials passport.

Human capital

Only staff in the direct employ of Alliander are included in the calculation of this type of capital.

Well-being impacts of having work were calculated relative to not having work in the Netherlands. The indicator exclusively concerns the non-financial direct well-being impact. It is assumed here that work satisfaction has a direct positive impact on well-being.

It is also assumed that non-work related absenteeism has no connection with the work at Alliander. The calculation of the impacts of work-related absence and accidents of employees (safety) is limited to direct effects. An accident or illness may be the underlying cause of other accidents or illnesses, but this is not measured here.

Comparative figures for impacts from 2018 and 2017

As in 2017, the attribution values in 2018 were determined on the basis of the share of the added value of Alliander in the Dutch energy chain. For comparison purposes the 2017 impacts have been restated using the 2018 attribution values. The following adjustments have also been made to the 2017 figures.

- The emission factor for Alliander's own CO₂ emissions has been revised according to the 2017 electricity label, making the 2017 emissions 416 kt instead of 632 kt.
- The analysis of revenue according to the different types of customer in the 2017 financial capital table was erroneously based on an incorrect ratio. This results in a limited adjustment to the reduction in capital value.
- The financial capital calculation has also been revised as a result of the changes in the cash flow structure, which
 made it necessary to recalculate a large number of items making up the financial capital. The changes bring the
 presentation of the financial capital in the impact model into line with the presentation of the cash flow in the
 financial statements.

Financial capital

€ million	2018	2017
Payments to suppliers	-1,098	-1,026
Dividends, repayments and interest	-924	-284
Payments to employees	-636	-636
Tax	-217	-199
Increase in cash reserves	39	53
Contributions from third parties	126	96
Other income	151	80
Costs to customers (business)	535	499
Raised capital, received repayments and interest	787	324
Costs to customers (residential)	1,316	1,199

Manufactured capital

€ million	2018	2017
Value of goods purchased for electricity transmission	-1,301	-1,248
Contribution of electricity transport to well-being of consumers (2018 figures, incl. reliability)	2,408	2,308
Including energy feed-in	9	-
Value of goods purchased for electricity transmission	-828	-971
Value of goods purchased for gas transport	2,309	2,706
Value of goods purchased by business customers	-284	-271
Value of energy transport - business customers	552	527

Natural capital

€ million	2018	2017
Climate change due to CO ₂ emissions	-331	-352

Human capital

€ million	2018	2017
Occupational diseases and accidents of employees (safety)	-1	-1
Well-being effects of having work	106	108

Impact measurement disclosures

In this report we disclose the impacts we have identified from decentralised feed in (Customers section) and from reuse of transformers (Our sustainable performance). By following the links below, it is possible to download documents providing further insight into and support for the information contained in the annual report.

- Impact analysis general
- Feed-in impact analysis
- Reuse of transformers impact analysis

Five-year summary

€ million	2018	2017	2016	2015	2014
Results					
Revenue	1,920	1,697	1,584	1,540	1,594
Total income	2,068	1,840	1,723	1,680	1,729
Total operating expenses	-1,572	-1,535	-1,516	-1,341	-1,245
Operating profit	496	305	207	339	484
Profit after tax	334	203	282	235	323
Balance sheet					
Net working capital	-117	-87	-145	-211	-172
Property, plant and equipment	7,072	6,793	6,529	5,899	6,218
Total assets	8,345	8,069	7,735	7,726	7,672
Equity	4,129	3,942	3,864	3,687	3,579
Total interest-bearing debt	1,796	1,784	1,564	1,668	1,775
Total financing	5,925 732	5,726 652	5,428 685	5,355 577	5,354 572
Investments in in non-current assets	732	652	685	5//	5/2
Cash flows					
Cash flow from operating activities	638	454	376	513	623
Cash flow from investing activities	-496	-549	-232	-492	-410
Cash flow from financing activities	-103	148	-185	-99	-201
Free cash flow	143	-95	144	21	213
Ratios					
Non-current interest-bearing debt as % of total interest-bearing debt	82%	87%	95%	72%	91%
ROIC	4.6%	4.6%	3.5%	4.9%	6.3%
FFO/Net debt	32.2%	27.4%	26.6%	28.1%	34.0%
Interest cover	12.9	10.2	8.3	7.6	7.6
Solvency ratio	57.3%	56.7%	58.5%	55.7%	53.6%
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	136,975	136,795	136,795
Other					
- Electricity					
Active connections as at 31 December (x 1,000)	3,169	3,135	3,109	3,100	3,078
New connections (x 1,000)	40	36	37	31	26
Cables laid (km)	899	834	859	918	816
- Gas Active connections as at 31 December (x 1,000)	2,533	2,520	2,510	2,671	2,658
New connections (x 1,000)	20	20	21	19	18
Mains laid (km)	141	132	151	159	136
- Volumes transported					
Electricity (GWh)	29,858	29,960	29,990	29,882	29,936
Gas (million m3)	6,090	6,228	6,367	6,012	6,115
- Other					
Number of disconnections (consumer and business market)	3,958	4,805	7,468	9,465	10,310
Facilitated supplier switches (x 1,000)	968	903	973	956	929
Annual electricity outage for Liander (minutes)	30.6	20.9	23.3	21.9	19.9
Average number of permanent staff (fte)	5,712	5,719	5,621	5,572	5,547

Definitions & abbreviations

ACM

In April 2013, the Consumer Authority, the Dutch Competition Authority and the Independent Post and Telecommunications Authority joined forces to create a new regulator: the Authority for Consumers & Markets (ACM). As part of its remit, the ACM oversees compliance with the Electricity Act 1998 and the Gas Act.

Attribution

Attribution of the impact relative to other entities contributing to the impact (part of the value and impact model).

Cable Pooling

The use of shared cables for wind and solar power feed in.

Caidi (customer average interruption duration index)

The average duration of individual power outages.

CBL (cross border lease)

A cross-border lease is a structured finance transaction by virtue of which a business sells the user rights of certain non-current assets to a foreign company, only to lease these assets back.

CO,

Carbon dioxide. This is mainly released during the burning of fossil fuels such as natural gas and coal and contributes to the greenhouse effect.

CO, equivalent

The effect of greenhouse gases other than CO₂ converted into CO₂ values.

Committee of Shareholders

The Committee of Shareholders as referred to in section 158 (10) Book 2 of the Netherlands Civil Code, if this has been appointed by the General Meeting of Shareholders.

Corporate Governance

The Dutch Corporate Governance Code contains principles and best-practice provisions governing the relationship between the Executive Board, the Supervisory Board and the General Meeting of Shareholders/shareholders themselves. The principles and provisions are aimed at detailing responsibilities for long-term value creation, risk management, effective management and supervision, remuneration and relationships with shareholders/the shareholders' meeting and with other stakeholders.

Eco-costs

Eco-costing is a method of expressing the environmental burden of a product. It is based on the costs that will be incurred in preventing that burden.

Energy transition

The transition from energy generation from fossil fuels to sustainable energy generation (e.g. from sun, wind or water).

Flex-market

In a flexible electricity market, supply and demand are better matched. Flexibility is created by energy users switching demand to off-peak periods. Intelligent systems also make it possible for power from renewables, for example, to be stored and for generation demand to be shifted in time without users having to alter the pattern of consumption.

FTE (full-time equivalent)

Equivalent of the number of employees with a full working week.

Guarantee of Origin

A Guarantee of Origin Certificate shows that electricity has been generated by a wind, hydro, solar or biomass installation.

DC (direct current) network

A network allowing DC power from renewables to be used directly without the need for an inverter to produce alternating current.

Geothermal energy

Energy derived from the heat found in the earth's crust.

Regulated domain

The activities of the network operator which arise from the tasks that are the exclusive preserve of the network operator and for which maximum tariffs are set by the ACM. This includes:

- the construction, maintenance, renewal and management of connections to the electricity grid with a load value up to 10 MVA;
- the construction, maintenance, renewal and operation of electricity and gas networks;
- the transportation of gas and electricity;
- the metering services for small consumers
- the effective assurance of the safety and reliability of the networks;
- the promotion of the safe use of equipment and installations that consume electricity and gas;
- the facilitation of the free market to enable customers to switch to another energy supplier, among other things.

Degree-day

A degree-day is a unit for quantifying energy demand. The measure is obtained by multiplying the number of degrees temperature difference between indoor temperature and average outdoor temperature over a given 24-hour period. If the outdoor temperature is 1°C below the temperature below which heating is required – taken as 18°C – that counts as 1 degree-day, and so on. If the average outdoor temperature is 18°C or above, the number of degree-days (for heating purposes) is zero.

Green bond

A debt instrument used exclusively to finance new and existing environmentally sound projects.

GRI (Global Reporting Initiative)

Global organisation that issues guidelines for CSR reporting.

Impact

In the context of the value and impact model) The effects of the actual outcome compared with the effects of the predetermined 'counterfactual' or reference scenario.

Smart grids

A 'smart grid' refers to electricity distribution networks in which ICT and sensor technology systems are used in substations and medium voltage transformer stations. The capacity has also been increased by raising the voltage from 10 kV to 20 kV.

LTIF (Lost Time Injury Frequency)

Number of accidents resulting in time off work times a million divided by the number of worked hours.

Interoperability

 $\label{thm:communicate} The \ ability \ of \ various \ autonomous, \ heterogeneous \ systems \ to \ communicate \ and \ interact \ with \ each \ other.$

Feed-in

The supply of electricity fed into the electricity grid from power generating sources.

Supply chain responsibility

A situation in which a company assumes responsibility for the entire chain involved in its activities and for the impact which these activities have in social, ecological and economic terms and renders account accordingly, including engaging in a dialogue with stakeholders. The whole process is result-driven.

Customer perception

The extent to which customers perceive convenience. It is measured using the Net Effort Score (NES). This score is given by deducting the percentage of customers experiencing difficulty with the service from the percentage of customers finding it easy.

Climate Agreement

The Climate Agreement aims to cut greenhouse gas emissions in the Netherlands by 49% compared with 1990 levels by 2030. Talks relating to the Climate Agreement were begun by businesses, civil society organisations and public authorities in 2018. A start is due to be made with implementing the plans coming out of the Climate Agreement in 2019.

Security of supply

The ability of customers to rely on the uninterrupted supply of electricity, gas and heat, as well as uninterrupted feed-in to the grid.

m³ of gas

A cubic metre (1,000 litres) of natural gas. The average natural gas consumption per household is about 1,800 m³ per year.

Methane

A gaseous hydrocarbon, chief component of natural gas.

Microgrid

The local network of energy sources that is able to function independently of the grid.

Net debt

The sum of long- and short-term interest-bearing liabilities less cash and cash equivalents and investments.

Net investments

Capital expenditures less contributions received from third parties.

Grid losses

There are two components to grid losses or network losses: technical losses and administrative losses. Technical grid losses refers to the electrical energy that is dissipated in overcoming the inherent resistance of cables, transformers and other components in the network. Administrative grid losses refers to losses due to fraud and theft of electricity and loss of potential income due to empty properties.

NO_x

Nitrogen oxides, gases produced during the burning of fuels. These gases cause acid rain and smog.

NTA8120

The NTA (Netherlands Technical Agreement) 8120 comprises standards for the assurance of the safety of employees and the public, the protection of industrial and built-up areas and nature, the security of transport and distribution, and the efficient and optimal management of grids.

Zero energy homes

Homes that produce as much energy as they consume.

Output

The effects of an activity – within the context of the value and impact model – over which Alliander has some control.

PCB (polychlorinated biphenyl)

Chemical name for chloride compound with strong heat-resistant properties.

Sufferance tax

A levy charged by local authorities for the assets of utilities running either overhead or belowground across public land or water as well as surface assets.

Regional Energy Strategy (RES)

The RES focuses on the energy task facing a region, including the potential for electricity generation from renewables, potential savings and the actual plans for balancing supply and demand. All the provincial and municipal authorities are expected to have an RES in place by 2020.

Regulation

With respect to public utilities, the process whereby the government sets the maximum rates that network operators are permitted to charge for their services.

Result

The effects of the output – within the context of the value and impact model – translated to system level.

Remuneration Report

The Remuneration Report of the Supervisory Board concerning the remuneration policy of Alliander, as drawn up by the Selection, Appointment and Remuneration Committee of the Supervisory Board.

Saidi (System average interruption duration index)

Average interruption duration per customer.

Saifi (System average interruption frequency index)

Interruption frequency per customer

SASensor

A sensor-based control system for the faster localisation and resolution of interruptions in the grid.

Sustainable Development Goals (SDGs)

The latest United Nations goals for sustainable development of the world in the period 2015–2030.

SF6

An inert gas that is 5.1 times heavier than air and has a CO_2 equivalent of 22,800. SF6 has good electrical insulating properties and is therefore frequently applied in electrical engineering, such as in medium-voltage and high-voltage units. In the case of combustion (e.g. due to an arc), toxic waste products such as S2F10 occur. Also, in the case of major leakages, there is the risk of SF6 displacing oxygen which can lead to suffocation.

Smart meter

The smart meter enables remote reading of electricity and gas meters to obtain information on consumption and status. In addition, a smart meter can execute remote instructions. The communication with the meter takes place via the cable network (Power Line Communication) or via GPRS.

Solvency ratio

The solvency ratio is obtained by dividing total equity including the profit for the period by total assets less the expected dividend distribution for the current year and deferred income.

Stakeholders

Stakeholders are individuals and groups who have any form of interest in Alliander such as employees, shareholders, customers, financiers, suppliers and public authorities.

Transparency

The extent to which things can be clearly seen through something – specifically the provision of a clear view of a company's activities.

Phasing-out of gas

The gradual discontinuation of a mains gas supply and use of gas as a fuel.

Outcome

The effects of the result – within the value and impact model – on people and/or ecosystems.

VCA (Veiligheid Checklist Aannemers)

A certifiable checklist for contractors by which they can demonstrate that they are complying with health and safety standards.

Substation

A power system installation on the high voltage network either connecting two or more high-voltage networks or forming a connection to the high-voltage network.

VET (Voortgang Energietransitie)

Proposed Energy Transition Advancement legislation aimed at supporting and accelerating the energy transition by amending the regulations governing electricity and gas networks. The changes are partly necessary in view of the increase in intermittent power supplies (solar, wind) and feed-in from decentralised sources, which demand high standards of reliability and affordability of the systems.

Deregulated domain

The activities that are carried out in competition and/or arise from the statutory tasks and are offered at the customer's request. This includes the construction, maintenance, renewal and management of connections to the electricity network with a load of 10 MVA and above for specific customer groups, including public transport and public lighting.

Free cash flow

Cash flow from operating activities less net investments in non-current assets.

Working capital

Inventories plus trade receivables and other receivables, less short-term non-interest-bearing debt and other liabilities.

Other non-financial information

CO₂ and energy

This section provides a detailed review of the energy consumption by Alliander itself and the CO₂-related impacts of operations. The methodology and the conversion factors used are also described.

Energy consumption

Alliander takes 2012 as the base year for calculating the reduction in its energy consumption. This is because the targets were formulated in 2012.

Energy consumption #	2018	2017	2016
Gas consumption in buildings	1,386,649 m3 ¹	915,619 m3	1,256,026 m3
Fuel consumption of vehicle fleet			
Petrol	1,360,318 Litres	1,248,224 Litres	1,237,807 Litres
Diesel	4,392,424 Litres	4,360,044 Litres	4,606,842 Litres
LPG	10,186 Litres	9,659 Litres	9,786 Litres
Electricity ²	0 kWh	204,555 kWh	136,000 kWh
Electricity consumption in buildings	9,779,593 kWh	9,818,143 kWh	10,456,041 kWh

¹ The addition of technical sites in the calculation means an increase in the total gas consumption of buildings overall.

² The electricity consumption for our vehicle fleet is accounted for in the figures for our buildings.

Energy consumption GJ	2018	2017	2016	Conversion factor
Gas consumption in buildings	48,768 GJ	34,258 GJ	44,174 GJ	35.17 official energetic value of Slochteren gas conversion factor 3.6.
Electricity consumption in buildings	35,207 GJ	35,345 GJ	37,641 GJ	conversion factor SI
Total energy consumption in buildings:	83,975 GJ	69,603 GJ	81,816GJ	
Energy consumption mobility				Conversion factor
Petrol	44,074 GJ	40,442 GJ	40,105 GJ	conversion factor 32.4
Diesel	157,249 GJ	156,090 GJ	164,925 GJ	conversion factor 35.8
LPG	265 GJ	251 GJ	254 GJ	conversion factor 26
Electricity	0 GJ	736 GJ	490 GJ	conversion factor 3.6
Total energy consumption mobility	201,588 GJ	197,520 GJ	205,774 GJ	
Total energy consumption	285,563 GJ	267,123 GJ	287,590 GJ	

CO₂-emissions and carbon footprint

For the purposes of the report, a uniform emissions standard is used across the sector. This differs from the Greenhouse Gas Protocol.

The GHG Protocol figures are presented in the following table.

Scope 1	2018	2017
Gas consumption in buildings	2,621	1,838
Natural Gas Network Leakage loss	48,021	48,345
Lease & company cars:	17,933	17,621
SF6 Emissions:	1,255	1,295
Total	69,830	69,099
Scope 2	2018	2017
Electricity consumption in buildings	4,327	4,344
Network loss on electricity, technical	274,740	300,950
Network loss on electricity, administrative	121,272	141,607
Total	400,339	446,901
Total Scope 3	400,339	446,901 2017
		'
Scope 3	2018	2017
Scope 3 Commuting, business travel, air transport	2018 4,504	2017 5,773
Scope 3 Commuting, business travel, air transport Total	2018 4,504 4,504	2017 5,773 5,773
Scope 3 Commuting, business travel, air transport Total Total	2018 4,504 4,504 2018	2017 5,773 5,773 2017

Most of the figures included in the tables and graphs in this report are taken from the underlying source systems. Some figures, however, are derived from third-party records or reports. An example of this is the volume of waste and the level of waste-related CO_2 emissions.

Arriving at the carbon footprint and the energy consumption involves making assumptions and estimates. Since 2016, the CO_2 emissions factor for the grid losses has been calculated on the basis of the energy purchased from our suppliers to cover grid losses. For the 2018 annual report, the 2017 electricity labels have been used. This gives a figure for the CO_2 coefficient of 0.26475 kg CO_2 /kWh. This includes an adjustment of 2% for tank-to-wheel.

More than 85% of the carbon footprint is attributable to grid losses on power distribution, giving a figure of 0.26475.

Approximately 10% of the CO_2 equivalent footprint is due to gas leakage losses, based on the mix of gas pipes in Alliander's network. The cast-iron gas mains have higher leakage losses (323 m³/km/a), which is considerably higher than the mains using PE pipe (55.29 m³/km/a). The CO_2 equivalent is calculated using a factor of 25 for methane.

Transport

The greatest impact which Alliander has outside the organisation itself is due to the activity of transporting energy to end-users. This accounts for the following volumes:

Energy transport	2018	2017	2016
Electricity transport	29,858 kWh	29,960 kWh	29,990 kWh
Gas transport	6,090 million m3	6,228 million m3	6,367 million m3

Alliander's energy intensity ratio is calculated by dividing the energy consumption in gigajoules by the revenue in millions. This ratio takes into account the gas consumption of buildings, the fuel consumption of the vehicle fleet and the electricity consumption of the buildings.

Energy intensity ratio	2018	2017	2016
	148.2 GJ/Million	157.4 GJ/Million	181.6 GJ/Million
	(€248,637/1,920)	(€267,123/1,697)	(€287,590/1,584)

^{*} This information is not available by energy type. Where Alliander is concerned, a view is obtained according to energy type for Scope 1 use; the distinction according to energy type for Alliander's own use is of a far smaller magnitude and impact and is therefore immaterial.

Green das

The total feed-in of green gas in the area supplied by Alliander during the year 2018 was 32,960,000m m³, involving connections to 16 green gas production facilities. The term 'green gas' refers to:

- Green gas: Bio-SNG, biogas and landfill gas conditioned and upgraded to natural gas quality. Biogas: Gas
 satisfying the definition of gas as a fuel but differing in that it is a product of the fermentation or digestion process.
 The two main components of biogas are CH4 and CO₂.
- Landfill gas: Gas satisfying the definition of gas as a fuel but differing in that it is a product of the natural processes
 of decay in a landfill site for waste disposal. The analysis is similar to that of biogas.
- Bio-SNG: SNG substitute/synthetic natural gas produced exclusively from biomass.

Crisis organisation

In case of major outages, an internal crisis organisation is mobilised. Within this organisation, staff members of various departments work on-call shifts. Depending on the nature and scale of the incident, when the crisis is over, we set up a case and/or investigation team to assist and ensure the completion of any internal and/or external investigations. All major incidents are evaluated to identify and implement possible improvements.

CSR organisation

Corporate Social Responsibility is a responsibility that is integral to all parts of the business and is included in the Planning & Control cycle. All the business units perform an analysis of the qualitative and quantitative impacts which their operations have on society. The Management Board has overall responsibility for the economic, ecological and social impact of Alliander. The CSR Manager personally communicates the policy to the managers of the separate entities and assists the management team in defining quantifiable parameters for monitoring progress. The Management Board and the Supervisory Board liaise with stakeholder representatives. Their presence or representation at regular and ad hoc meetings ensures an active awareness of developments and views regarding strategic topics. See the section of the report covering interaction with stakeholders for the various social concerns that have been discussed.

The results of the CSR policy are evaluated with the stakeholders. The extent to which stakeholders appreciate the policy that is pursued and the results that are achieved is gauged by such means as customer surveys, employee involvement, shareholders' meetings, roundtable meetings and the Social Report.

External assurance of the social part of the annual report

Alliander believes it important for its stakeholders to have formal assurance regarding the social part of the annual report. For the 2017 annual report, Alliander has received an unqualified assurance report affording reasonable assurance with respect to the most relevant part of the annual report, namely the more important management variables taken into account by the company (both financial and non-financial).

Alliander has also obtained reasonable assurance in relation to the material aspects of its reporting (materiality test). Additionally, Alliander has received an unqualified assurance report affording limited assurance covering the rest of the social part of the annual report. To guarantee the quality of the social information, Alliander adopts the Three Lines of Defence model. The various business units are required to submit social information gathered in connection with the stakeholder dialogue, the materiality test and GRI activities, as well as in other ways. The separate entities form the first line of defence and are responsible for supplying reliable information. The business controllers of each business unit form the second line of defence and ensure that their business submits its information reliably and on time. The business controllers check such things as the basis of the information and the analysis of it by the business itself and prepares a file for the verification carried out by the internal audit department. The internal audit department forms the third line of defence, verifying the social information before it is reviewed by the external auditors. The external auditors form the final link in the verification process and provide ultimate assurance, as expressed in the report.



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Alliander N.V.

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This report is a translation of the Dutch annual report 2018 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 2018 will prevail.

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