Alliander N.V. Half-Year Report 2017

26 July 2017

alliander

Disclaimer

This report is a translation of the Dutch half-year report 2017 of Alliander N.V. Although this translation has been prepared with the utmost care, deviations from the Dutch half-year 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 half-year report 2017 will prevail.

'We', 'Alliander', 'the company', 'the Alliander Group' or similar expressions are used in this report as synonyms for Alliander N.V. and its subsidiaries. Alliander N.V. holds the entire share capital of Liander N.V., Liandon B.V., Allego B.V., Alliander Duurzame Gebiedsontwikkeling B.V., Kenter B.V. and Alliander AG among other entities. Liander refers to network operator Liander N.V. and its subsidiaries. In this report, Liandon refers to Liandon B.V.

Parts of this report contain forward-looking information. These parts may - without limitation - include statements on government measures, including regulatory measures, on Alliander's share and the share of its subsidiaries and joint ventures in existing and new markets, on industrial and macroeconomic trends and on the impact of these expectations on Alliander's operating results. Such statements contain or are preceded or followed by words such as 'believes', 'expects', 'thinks', 'anticipates' or similar expressions. These prospective statements are based on the current assumptions and are subject to known and unknown factors and other uncertainties, many of which are beyond Alliander's control, so that actual future results may differ significantly from these statements.

This report has been prepared using the accounting policies applied in the preparation of the 2016 financial statements of Alliander N.V., which can be found on www.alliander.com.

This report has not been audited.

Contents

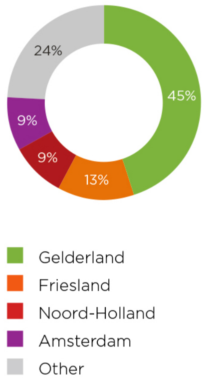
Profile

Alliander is a network company. We ensure reliable, affordable and accessible energy distribution in a large part of the Netherlands. The shares are owned by municipalities and provinces.

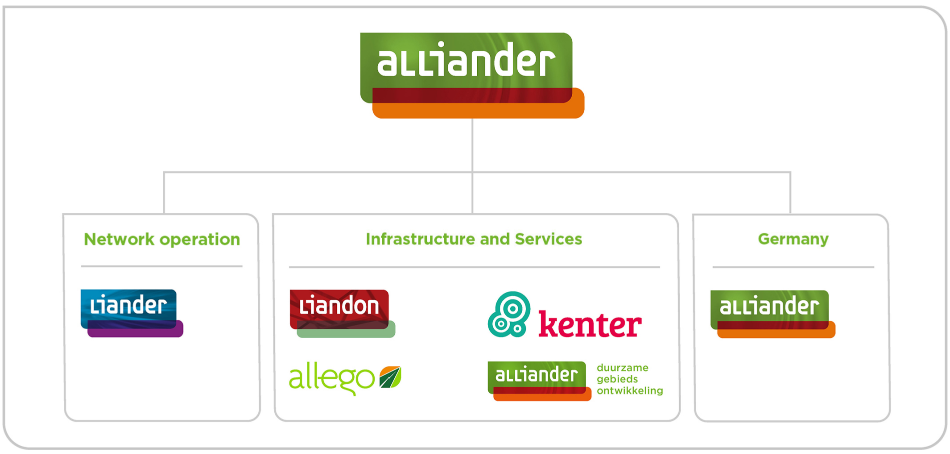
Alliander consists of a group of companies, among them Liander, Liandon, Allego, Kenter and Alliander Duurzame Gebiedsontwikkeling (DGO). Together we stand for high-quality knowledge of energy networks, energy technology and technical innovations. Network operation is our core activity. Network operator Liander keeps the energy infrastructure in good condition to ensure distribution of gas and electricity to over 3.3 million consumers and businesses every day. Liandon focuses on the development of sustainable technologies and intelligent energy infrastructures.

Service area

Shareholders



We work for a reliable energy supply to make living, working and travelling possible, now and in the future. Consequently, Alliander explores and develops new business activities to contribute to the development of the new energy system. Allego, for instance, is developing customised charging solutions and infrastructure for municipalities, businesses and transport companies. Metering company Kenter is delivering innovative solutions for metering energy and energy management. DGO's objective is to create open networks for transport and distribution of sustainable and local energy.



Mission and strategy

Mission

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

Our strategy

We foresee the emergence of a fundamentally different energy system. Alliander is responding to these challenges with a clear strategy, divided into four pillars. Alliander ensures that customers can make the right energy choices: for themselves and for the energy system as a whole. So that everyone has equal access to reliable, affordable and renewable energy.

Alliander opts for:

Supporting customers in making choices

Customers are gaining more and more influence over the energy system and so we make it attractive for them to make choices that not only work out well for them, but also for our energy system as a whole.

New open networks

The aim of an energy supply at the lowest social cost requires us to develop new infrastructures such as heating networks and make them equally accessible to everyone.

Digitisation

Our existing electricity and gas networks are not set up for the future changes in our energy supply. We have opted for digitisation to make our existing networks ready for the future.

Excellent network management is the basis

Our energy networks are among the most reliable in the world. We keep the current networks affordable through efficient management and economies of scale. We also want to further increase the comfort our customers experience when we are carrying out work on their behalf.

Objectives and results

Safety

Objectives	Results 30 June 2017	Objectives ultimo 2017	Results 31 December 2016
LTIF (lost time injury frequency)[1]	1.6	An LTIF of 2.0 or lower	2.0
Safety Culture[2]	35%	At least 30%	34%

Customers

Objectives	Results 30 June 2017	Objectives ultimo 2017	Results 31 December 2016
Net effort score[3]	Consumer market 50% Business market 42%	Net effort score is higher than 52% (consumer market) and 38% (business market)	
Electricity outage duration (in minutes)[1, 4]	21.1	Maximum of 21	23.3
The number of unique cable numbers with more than five interruptions[5]	12	Maximum of 18	17
Top risk-reducing projects[6]	52%	Minimum of 90%	48%
Offer smart meter	257,000	Minimum of 534,000 addresses Target 30th of June 2017: 240,000	428,000
Digitisation programmes[7]	13%	Minimum of 95% Target 30th of June 2017: 31%	8%

Employees

Objectives	Results 30 June 2017	Objectives ultimo 2017	Results 31 December 2016
Employee survey score[8]	-	Minimum of 75	70
Employee absenteeism[1]	4.1%	Maximum of 3.9%	4.1%
Women in leadership positions	24.7%	Minimum of 27%	24.7%
People at a distance from the labour market	69	Minimum of 100 Target 30th of June 2017: 50	104

Shareholders and investors

Objectives	Results 30 June 2017	Objectives ultimo 2017	Results 31 December 2016
Retention of solid rating	S&P: AA-/ A-1+/stable outlook Moody's: Aa2/ P-1/stable outlook	Maintain solid A rating profile	S&P: AA-/ A-1+/stable outlook Moody's: Aa2/ P-1/stable outlook
Financial policy[9]			
FFO/net debt	25%	> 20%	27%
Interest cover	9.2	> 3.5	8.3
Net debt / (net debt + equity)	35%	< 60%	33%
Solvency	57%	> 30%	59%
Sustainability			
Socially responsible procurement[10]	44%	Minimum of 71%	71%
CO_2 emissions from business operations[11]	336 kton	Maximum of 668 kton Target 30th of June 2017: 333 kton	797 kton
Circularity[12]	0.6%	Minimum of 5.0% Target 30th of june 2017: 2.5%	-

1 The figure is a 12-month moving average.

2 The safety culture performance within Alliander is measured according to the position on the safety ladder. The score and target for 2017 are based on the number of employees having achieved a safety proficiency level of at least 3.

3 For the consumer and business markets alike, the customer satisfaction KPIs is measured on a monthly basis commencing in 2017, using the Net Effort Score (NES), instead of customer satisfaction surveys (every six months). This reflects internal management at Liander more closely, allowing the score to be reported each month instead of only twice a year. Targets are based on the year-end forecasts for 2016 plus an increase reflecting the ambition for 2017.

4 The outage duration expresses in minutes the average time for which our customers are without electricity over a 12-month period in the area served by Liander. The stated outage duration for 2016 and 2017 is based on low, medium and high voltage.

5 The KPI relating to repeat faults will be measured on the basis of individual cable identification numbers commencing in 2017 and no longer on a postcode basis. Repeat faults related to cable number gives a better indication of the number of customers experiencing more than 5 power failures a year since customers within the area covered by a postcode can be connected to different cables, so that a repeat fault reported for a given postcode does not necessarily mean more than one power failure affecting a particular customer. Repeat faults on any one cable, however, will affect the same customers each time.

6 The KPI represents the extent to which the predefined milestones were achieved for the 25 most important risk-mitigating programmes or projects.

7 The score relates to the percentage completion of the most important digitisation programmes compared with planned progress in three different areas: medium-voltage I-networks digitisation (i-MSR) (planned: 261 units), commissioning of FlexOV boxes (planned: 8,500 units) and Smart Cable Guard (SCG) digitisation (planned: 266 units).

8 The survey is carried out once a year and the score will be reported in the second half of 2017.

9 The financial framework within which Alliander operates is based on four ratios. These ratios are calculated according to the principles of our financial policy. These principles differ in two respects from the classification according to IFRS: 1. Under IFRS the subordinated perpetual bond loan is recognised as equity whereas, according to the principles of our financial policy, this instrument is treated as 50% borrowed capital and 50% equity; 2. 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. 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. 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.

10 The SRP (Socially Responsible Procurement) percentage shows the proportion of Alliander's expenditure which meets the SRP criteria.

11 The CO_2 emissions target for 2017 has been recalculated using the most recent emission factors. Since these factors were not known at the time of publication of the 2016 annual report and 2017 annual plan, the target shown for 2017 (668 kt) differs from the 2017 target previously published in the annual report and the annual plan (673 kt).

12 Circularity is a new KPI that represents the percentage of the assets (cables, transformers, gas pipes and meters) bought by the company qualifying as circular procurement (measured in terms of recycled and recyclable materials).

Financial key figures

€ million, unless stated otherwise	1st half 2017	1st half 2016
Revenue	838	783
Other income	71	65
Operating expenses	762	740
Operating profit	147	108
Profit after tax	93	232
Profit after tax excluding incidental items and fair value movements	94	64
Investments in property, plant and equipment	292	304
Cash flow from operating activities	152	106
	30 June 2017	As at 31 December 2016
Total assets	7,912	7,735
Total equity	3,851	3,864
Net debt[1]	1,869	1,693
ROIC[2]	3.8%	3.5%

1 Net debt is defined as interest-bearing debt less cash and cash equivalents and investments that are not restricted.

2 Return on invested capital (ROIC) is defined as the 12-month operating profit adjusted for incidental items and fair value movements, profit after tax from associates and joint ventures and tax, as a percentage of average invested capital (= the sum of the carrying amounts of intangible assets, financial assets, property, plant and equipment and working capital less deferred income).

Report of the Management Board

Higher customer demand and an additional 150 vacancies in the technical field

Alliander posted a profit after tax of € 93 million in the first half of 2017 (2016: € 232 million). The lower figure is largely explained by the non-recurring income of € 176 million in 2016 from the sale of Endinet. Excluding incidental items, the profit was up by € 30 million compared with the corresponding period in 2016. We are investing heavily in the energy system of the future, though at the same time we are experiencing a shortage of engineering capacity, which is hampering the implementation of our activities.

Everyone safe at home

Working in energy supply and distribution demands a safety-first approach, both for our customers and for our workforce. In the first half of 2017, there were 43 incidents, 10 of which led to time off. Our target is and remains that everyone should get home safely from work.

Shortage of engineering/technical capacity

The economy is growing strongly in large parts of our service area. Housebuilding is in full swing again and new businesses are springing up. We also see decentralised generation of renewables really beginning to take off. These developments necessitate further expansion and modification of the energy networks. In parts of our service area, demand for new connections to our electricity distribution network in the period under review was a considerable amount higher than expected. This makes it a challenge for us to get the work done on time. One of our biggest challenges is the recruitment of enough technically qualified people in the labour market.

So Alliander is working hard to address this challenge with various solutions. We are being very active in the labour market. We have campaigns running to highlight the attractive career opportunities presented by a network operator like Alliander for technically qualified men and women. We are also putting a great deal of energy into the accelerated training and retraining of existing staff. And we are talking to customers and municipalities in an attempt to be transparent about the capacity challenges and see if together we can find appropriate solutions.

We currently have an addition of 150 technical/engineering vacancies. In the energy sector overall, it is reckoned that there is already a shortage of 4,000 'engineers' each year in the Netherlands and that this is threatening the progress of the energy transition.

The switch to renewables

The impact of the energy transition, which will continue in the coming decades, is not restricted to the amount of work it is generating in itself for us. The increase in solar panels, wind turbines, electric vehicles and heat pumps is increasing the peak loads on the electricity distribution system and this in turn means additional work on our networks and additional investment in them. On top of that, there are more and more customers and municipalities, wanting to switch to different forms of heating instead of gas. This has implications for the gas distribution system. Our strategy is to absorb the effects this is having wherever we can. We do this by means of innovations designed to avoid extra investment in the electricity network as far as possible and by our approach to the heating transition.

Heating transition

Since there is no certainty regarding the possibility of new uses for the existing gas infrastructure we are attempting to avoid having to construct new gas distribution networks and also avoid having to replace gas pipes too soon. At the same time we are putting every effort into the success of projects that help to bring about the transition to a sustainable heating system.

We are in close contact with the municipalities in our service area regarding the approach to what we call the 'heating transition': the switch from gas heating to other forms of heating by for example biogas or residual heat. In March this year, Alliander entered into a formal partnership with the City of Arnhem with a view to making two of the city's existing districts gas-free in due course. The project will involve a joint effort on the part of local residents, the city authorities and Alliander to find a climate-neutral heating system that will provide the most intelligent solution and be the lowest-cost option.

Also in March, a Green Deal was signed by network operators and municipalities among other bodies together with the outgoing Minister of Economic Affairs, Kamp. The Green Deal gives scope for municipalities to introduce heating systems relying on methods other than burning gas for individual homes and whole districts. Alliander lends its full support to the ambitions and objectives formulated in the Energy Agenda and sees the recent announcement of the abolition of the mandatory provision of a gas supply in newly-built quarters as another important step.

Joint efforts on intelligent applications

At the same time we are working on intelligent applications, for example, to use the existing energy distribution networks as efficiently as possible. We are also supporting initiatives for local and completely sustainable energy supply systems.

On Ameland for instance, a partnership agreement has been signed with various parties with the aim of making the energy supply system on the Island fully sustainable. In the district of Nijmegen-Noord, a new marketing model is being launched, with flexibility between supply and demand for electricity at its core. Flexibility can provide a more affordable alternative to the conventional approach of bolstering power line strength if the demand for electricity increases. There is also a big difference in the amount of work involved, which helps when we are already hard pushed to get all the work done.

Investment in digitisation

Thanks to the installation of smart meters, sensors, remote-controlled switches and a modernised telecommunications network, we can detect and even prevent faults more quickly. We can also make more targeted investments in the networks, and offer customers the data they need to make easier energy choices. In the first half of 2017 we made smart meters available at some 257,000 addresses (target for the whole of 2017: 534,000). The first half of 2017 also saw the roll-out of an entirely new optical fibre network and mobile telecommunications network completed, replacing our obsolete copper network. The telecommunications network links all substations, regulating stations and switching stations with our operations centres and forms a crucial component in the safe and efficient management of the energy distribution systems.

Other developments

On Tuesday, 21 March 2017, the Dutch Parliament finally put an end to the levying of sufferance tax on gas and electricity infrastructure. This tax, which is passed on to customers in the price they are charged for energy, last year amounted to almost € 150 million and, in the first half of 2017, € 69 million (first half 2016: € 65 million). The passage of this bill means that municipalities will henceforward be unable to introduce new sufferance tax charges and all authorities must have ceased charging the tax by 2022.

Another development was the conversations Alliander had with Provinciale Zeeuwse Energie Maatschappij (PZEM, formerly Delta) at the end of 2016 and in the first half of 2017 to take over the PZEM network operations and infrastructure activities (Zeeuwse Netwerkholding). In the end, PZEM decided to proceed with Stedin. In the meantime this takeover process has been completed.

Finally, in March, Alliander officially moved back into its 'Bellevue' headquarters in Arnhem. The office building underwent comprehensive renovation last year. Almost the entire project qualified as 'circular', with 95% of the materials we took out of the existing building reused. The renovated head office has sustainability credentials and is no longer connected to the gas supply. Climate control in the building now relies exclusively on heat and cold storage.

Corporate social responsibility

Apart from the contribution being made to facilitating the transition to a sustainable energy system, Alliander is also careful to discharge its corporate social responsibility. The CO_2 emissions from our activities in the first half of 2017 amounted to approximately 336 kt (H1 2016: 348 kt). Alliander's goal is to achieve climate-neutral operations by 2023, including meeting network losses with green energy. This is being achieved by using additional wind power generated in the Netherlands. Emissions of 40 kt a year associated with network losses are already 'greened' in this way. That is the equivalent of the annual CO_2 emissions from 5,000 homes.

Another CSR-related development concerns the use of raw and other materials. In this context, eight members of the Green Networks platform (including Alliander) have agreed to employ a common system for getting their suppliers to declare the origin of raw materials for all the contracts which they award by 2020 at the latest. With this aim in view, a raw materials passport was launched at the beginning of this year in which suppliers will record the raw material composition and origin of the products they use. This will encourage suppliers to make the right choices. Alliander has already begun collecting product information from suppliers and is at pains to make proper use of recycled materials for construction, management and maintenance of networks. The plan is to run the trial of the raw materials passport, using the award of transformer installation contracts as a test, in the second half of 2017.

Investments

The capital expenditure on the networks and meters of the grid operator Liander amounted to € 246 million in the first half of 2017 (first half 2016: € 254 million). The investment in electricity grids was in total € 130 million (2016: € 135 million), subdivided to € 87 million in expansion and € 43 million in replacing existing electricity grids. The investment in the gas grid was in total € 58 million (2016: € 59 million), subdivided to € 15 million in expansion and € 43 million in replacing existing gas grids. The costs of repairs and maintenance in the first half of 2017 were € 123 million (in the first half of 2016: € 117 million).

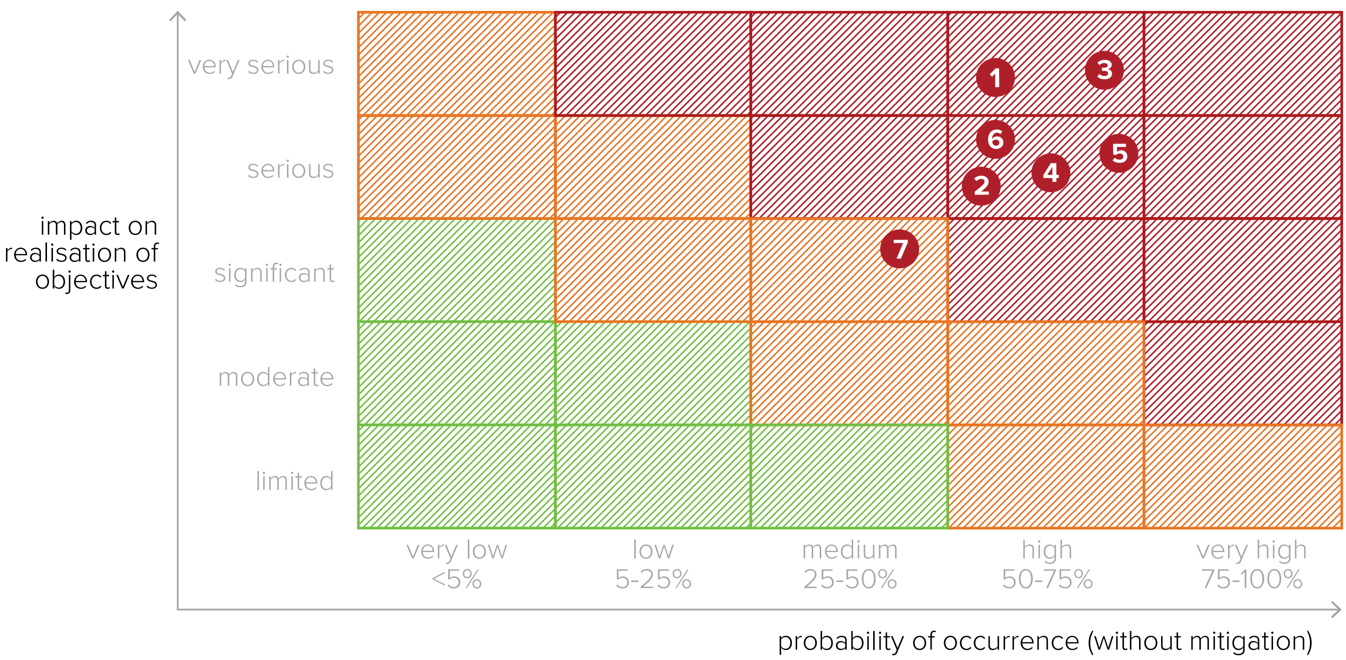
€ million	Realised until June 2017	Realised until June 2016	Target at year-end 2017	Realised 2016
Electricity				
Expansion	87	91	272	204
Replacement	43	44	94	95
Gas				
Expansion	15	18	45	40
Replacement	43	41	100	91
Metering devices	54	53	119	113
Other network	3	7	11	12
Total investments	**246**	**254**	**641**	**555**
Maintenance costs	123	117	247	240
Total maintenance costs and network investments	**369**	**371**	**888**	**795**
Number of addresses smart meters offered	257,000	201,000	534,000	428,000

Risk Management

Alliander attaches great importance to good risk management. It gives us the assurance we need to achieve our strategic objectives in a responsible manner. We use a dedicated risk management framework that has been built around key principles. This enables the entire organisation to make adjustments and improvements whenever necessary, while ensuring that Alliander remains compliant with all laws and regulations. Further details of Alliander's risk management can be found in the section of the 2016 annual report devoted to risk.

The main risks are discussed frequently in Management Board meetings and on a quarterly basis in Supervisory Board meetings. The possible impact on our strategic objectives and the probability of occurrence determine what our main risks are.

1 Safety
2 Feasibility of the workload
3 Insufficient long-term regulatory focus
4 Cybercrime
5 Privacy of energy data
6 Required capacities and competences
7 Consequences of energy transition



The arrows show the long-term expected risk developments: upwards (increasing risk), flat or downwards (decreasing risk).

1. Safety ↓

What is the risk?

Working with gas and electricity entails risks to the health and safety of our employees, contractors and customers. Insufficient safety awareness or knowledge of safety measures increases the risk of accidents. Actions of third parties may also cause unforeseen safety risks.

How is it managed?

Within our organisation we take targeted safety measures. Despite the progress made on safety awareness, there have still been some safety incidents. Even more attention is therefore being given to this issue and to improving our safety culture. For example, safety risks and measures are now specifically mentioned during the pre-job meetings at the start of every day. Our processes and components are also being made safer and training and refresher courses are being provided to staff. Incidents are investigated to identify the immediate and underlying causes. The findings are used to make improvements together with our internal organisation and our contractors. Our ambition is 'Everyone safely home!'

2. Feasibility of the workload ↑

What is the risk?

We are currently seeing a sharp increase in the volume of work on our networks. We accordingly have various improvement initiatives in hand, aimed at doing the right things and doing things right. Otherwise there is a risk we shall not have succeeded in scaling operations up in time to get all the work done in the years ahead. The pressures are also intensified by an economy which is picking up at the same time as the energy transition is coming at us full tilt, giving rise to enormous extra complications and uncertainties. Failure to address these risks will have an immediate impact on Alliander's reputation. Uncertainty faced by customers regarding new connections, failure to meet statutory deadlines and possible lengthy outages could lead to critical reactions from the public, in the media and in political circles.

How is it managed?

We believe that in the longer term we shall only be able to succeed in our mission if we discharge our duties properly also in the regulated markets. Alliander's approach therefore focuses on the following aspects:

1. Investing in making our existing organisation more effective and more efficient, including working closely with our partners in the supply chain (especially contractors);
2. Ensuring that there is clarity regarding forecasts and management of expectations with respect to both new work and maintenance;
3. Scaling up operations and speeding up processes, involving such things as new approaches to recruitment and training; and

At present we are facing a growing risk despite the measures already taken.

3. Insufficient long-term regulatory focus →

What is the risk?

The rules within the regulated energy domain have an impact on the scope of our activities and our profitability. The failure of regulations to keep pace with changes in the energy landscape may affect the long-term continuity of our company. One major change, for example, is the envisaged sharp reduction in the use of natural gas as part of the push for sustainability. For Alliander, this could mean that our gas networks will be used for a different purpose or that customers stop using gas. In the latter case, our existing investments will possibly never pay for themselves and this could jeopardise the affordability of our energy network.

How is it managed?

Constructive new legislation is vital so that we can continue investing in new initiatives for the energy system of the future. We think 30 years ahead about the impact that the transition from fossil fuels to renewables will have on the infrastructure we manage. We create future projections to indicate the necessary regulatory adjustments and engage in a dialogue on these matters with all the affected stakeholders with the aim of building a future-proof, sustainable energy supply system which everyone has access to, can rely on and can afford. A case in point, for example, is the future of the gas network. Recently, Minister of Economic Affairs, Henk Kamp, announced in a letter to the Dutch Parliament the scrapping of the mandatory provision of a gas supply to any newly-built quarter. Alliander is keen to be involved at an early stage in the development of alternative energy supply systems.

4. Cybercrime ↑

What is the risk?

Our energy infrastructure is becoming increasingly digitised. In parallel with this we are seeing an increase in targeted hacking of vital infrastructure around the world. This makes cyber security a major concern. It is important for Alliander to protect itself against this risk.

How is it managed?

We protect our networks and computers against attacks by working on prevention, detection and cybersecurity response plans. The security function within Alliander was further expanded in 2017. The biggest challenge is recruiting suitable people. Additionally, we are working closely with others under the auspices of the Association of Energy Network Operators in the Netherlands (Netbeheer Nederland) to address these matters. We also maintain close ties with organisations such as the Dutch National Cyber Security Centre and central government agencies to keep track of the rapidly evolving developments and pick up external signals of attacks at an early stage. Finally, we are working on cybersecurity in conjunction with a number of other parties in the European Network for Cyber Security (ENCS), which Alliander helped to set up.

5. Privacy of energy data ➡

What is the risk?

As part of our energy network management activities, we have access to privacy-sensitive data. In the context of facilitating the proper operation of the market, this concerns things like information on connections, energy contracts, usage and costs. Safeguarding the privacy of this energy-related data is accordingly of great importance.

How is it managed?

When processing energy data, we carry out privacy-impact analyses. Based on the outcomes, measures are taken where necessary. Moreover, since 2016, organisations have been obliged to report any personal data breaches to the Dutch Data Protection Authority. Alliander has set up the requisite processes and organisation for this purpose. Our data protection efforts extend beyond our own organisation. A joint effort is being made in the energy sector to protect privacy-sensitive data. To this end, information is being exchanged with the Dutch Data Protection Authority, the Netherlands Authority for Consumers & Markets and with the industry organisations the Association of Energy Network Operators in the Netherlands and Energie-Nederland.

6. Required capacities and competences ⬆

What is the risk?

We fear that we may not be able to scale up operations in time going forward to do all the work, especially in view of the shortage of properly qualified technical staff/engineers and the time it takes for people to be trained. This presents us with major challenges in performing our task (feasibility), meeting the expectations of stakeholders (reputation management) and retaining our licence to operate, and to innovate. Additionally, attracting and retaining top talent in the fields of IT and engineering are crucial to our continued ability to innovate.

How is it managed?

We need to have a clear understanding of what the critical competencies of the future will be, given the advances in technology and digitisation. We need to remain an attractive employer if we are to have sufficient power to attract new talent. Being an attractive employer involves offering the prospect of personal development, with jobs that are both meaningful and challenging (technically and otherwise) as well as challenging work on the IT front. We also need to take our existing staff forward to keep abreast of developments, with retraining and additional training where necessary. Our recruitment staff maintain contact with relevant target groups through social media pools, for example. In addition, we are increasingly entering into partnerships with universities and schools to raise our profile as a potential employer at an early stage (see also the risk associated with the feasibility of the workload).

7. Consequences of energy transition ⬆

What is the risk?

The energy transition is accelerating. It is now accepted that the world is to an increasing extent going electric and that the use of gas for heating our homes will be phased out. The advent of solar panels, wind farms, heat pumps and electric vehicles and the end of natural gas mean that the electricity network needs to be rapidly upgraded in many places. The take-up of the new energy systems is difficult to predict. However, owing to uncertainty surrounding the energy transition scenarios as regards the disciplines of electricity, gas and heat (what will happen, where and at what speed) and a limited overall organisational focus, there is a risk that Liander has an inadequate overview of the regional and wider trends, making investment choices difficult. On top of that, dwindling income streams from the gas network will further undermine the affordability of the energy system and Liander will become a limiting factor in the energy transition if its response to developments locally or more generally is delayed.

How is it managed?
Alliander’s answer to this risk rests on three pillars: data-driven network operation, a more proactive approach to customers and the development of innovative solutions. Data-driven network operation will generate greater predictive insight. A more proactive customer approach will allow Alliander to become aware of local trends at an earlier stage, benefiting the heating transition. And by developing innovative solutions, Alliander will be able to avoid having to increase network capacity and invest in new assets or decommission assets.

Other

Policy update
Risk awareness within Alliander is generally sufficient. We have good and up-to-date insight into the uncertainties within our business.

Legal proceedings and claims
In January 2014, the Trade and Industry Appeals Tribunal (CBb) in a dispute with another network operator ruled on the definition of an electricity connection. It was concluded that certain links were no connections within the meaning of the Electricity Act 1998 and the network operator to these parties could not provide services. As of January 1, 2014, the Electricity Act 1998 has changed and these links are still under the legal definition of a connection. By 2016, Liander received a number of claims with reference to the January 2014 ruling. In December 2016, the CBb decided in a similar case that the links are indeed connections and rejected the customer's claims. Precedence of the 2014 verdict is therefore no longer dealt with. According to Liander's current expectation, no obligations will arise from this.

Liander is involved in legal disputes with a number of municipal authorities relating to sufferance tax. Liander could potentially be reclaiming an amount of €18 million. However, given the uncertainties, these receivables were not recognised in the balance sheet as at 31 December 2016 and 30 June 2017.

Referring to the Electricity Act 1998 and the Gas Act, the Authority for Consumers & Markets (ACM) has raised questions concerning a number of new activities carried on by Alliander. These questions concern possible unfair advantages and in one specific situation of alleged energy supply, along with other matters. With regard to this situation, the activities concerned were accordingly transferred to an energy supplier at the end of 2015. The ACM has concluded that the activities did indeed fall within the scope of the law with respect to the specific situation in question. In 2016, the regulator ACM issued a partially connected ruling on an enforcement request regarding some of Alliander's new activities, mainly Hoom, Exe and MPARE. The ACM concluded that these activities did not fall outside the legal frameworks partly because they did not conflict with the management of energy networks. Two parties brought appeals against the ACM's rulings in 2016. No other developments took place in the first half of 2017.

Financial performance

General

The profit after tax for the first half of 2017 was down by € 139 million compared with the corresponding period in 2016 and came in at € 93 million. For comparison with 2016, it should be stated that the result for 2016 included a book profit of € 176 million on the sale of Endinet to Enexis. This was part of the asset swap between Alliander N.V. and Enexis B.V. Profit after tax from continuing operations excluding incidental items and fair value movements was € 94 million, which is € 30 million higher compared with the corresponding period in 2016. This is mainly a consequence of increased revenue from the regulated activities, partially offset by higher purchase costs, costs of subcontracted work and operating expenses plus higher depreciation connected with increased capitalised production.

The net debt position has risen by € 176 million to € 1,869 million (31 December 2016: € 1,693 million). The increase in debt is the consequence of a negative free cash flow and the paid dividend over 2016. The funding requirement has been provided by attracting short-term loans from the Euro Commercial Paper (ECP) program. The solvency ratio as at the end of the first half of 2017 was 57% (31 December 2016: 59%).

Income statement

Operating income

The operating income for the first half of 2017 was up by € 61 million compared with the first half of 2016, at € 909 million. This was mainly the effect of an increase of € 56 million in the revenue from regulated activities that was almost entirely attributable to the higher regulated tariffs (€ 50 million) but also to an increase in the number of connections and volumes distributed (€ 6 million). The increase in regulated tariffs is largely the result of the fee charged for tariffs due to sufferance taxes.

Operating expenses

Total operating expenses in the first half of 2017 came in at € 762 million (first half 2016: € 740 million). The increase of € 22 million in operating expenses was chiefly accounted for by:

- an increase in staff costs (both permanent and temporary staff) by a total of € 18 million. This mainly stems from an increase in the number of FTEs connected with scaling up technically trained personnel at Liander and Liandon and growth in Alliander's activities connected with the energy transition. Pay rises under the CLA and additions to employee-related provisions also resulted in increased staff costs;
- an increase of € 10 million in depreciation, partly because of the higher level of investment during the past years but also because of the accelerated depreciation of metering equipment as a consequence of the large-scale (and more rapid) introduction of smart meters;
- an increase of € 8 million in the cost of purchasing electricity, mainly as a consequence of higher tariffs (€ 5 million), increased volumes (€ 1 million) and settlement of accounts in respect of prior years (€ 1 million);
- the increase in the operating expenses was partly offset by the increase of € 10 million in the capitalised production as a consequence of an increase in hours booked to capitalised production due to the increased level of activities.

Finance income and expense

Finance income and expense in the first half of 2017 resulted in a net expense of € 21 million (first half 2016: € 28 million). The decrease was mainly the consequence of refinancing at a lower interest rate.

Share in results from associates and joint ventures

The share in the results of associates and joint ventures for the first half of 2017 was a loss of € 2 million (first half 2016: € 1 million loss).

Tax

The effective tax burden (the tax burden expressed as a percentage of the profit before tax excluding the result after tax from associates and joint ventures) amounted to 28.8% in the first half of 2017 (first half 2016: 29.1%). Against the nominal pressure of 25%, the difference is caused by the downward effect of, in particular, fiscal investment schemes, partially offset by non-deductible expenses and tax losses on the international activities that were not recognised.

Incidental items and fair value movements

Alliander's results can be affected by incidental items and fair value movements. Alliander defines incidental items as items which in the management's opinion do not derive directly from the ordinary activities and/or whose nature and size are so significant that they must be considered separately to permit proper analysis of the underlying results.

Reported figures and figures excluding incidental items and fair value movements

€ million	1st half					
	Reported		Incidental items and fair value movements		Excluding incidental items and fair value movements	
	2017	2016	2017	2016	2017	2016
Revenue	838	783	-	-	838	783
Other income	71	65	-	-	71	65
Total purchase costs, costs of subcontracted work and operating expenses	-673	-649	-1	-11	-672	-638
Depreciation and impairments	-192	-182	-	-	-192	-182
Own work capitalised	103	91	-	-	103	91
Operating profit (EBIT)	**147**	**108**	**-1**	**-11**	**148**	**119**
Finance income/(expense)	-21	-28	-	-	-21	-28
Result from associates and joint ventures	-2	-1	-	-	-2	-1
Profit before tax	**124**	**79**	**-1**	**-11**	**125**	**90**
Tax	-31	-23	-	3	-31	-26
Profit after tax from continuing operations	93	56	-1	-8	94	64
Profit after tax from discontinued operations	-	176	-	176	-	-
Profit after tax	93	232	-1	168	94	64

Notes to incidental items

The exceptional expense in the purchase costs, costs of subcontracted work and operating expenses in the first half of 2017 (€ 1 million) is connected with costs relating to organisational changes (first half of 2016: € 2 million).

Also included in the first half of 2016 was an item of € 5 million in respect of project and integration costs relating to the purchase of the networks in Friesland and the Noordoostpolder and an item of € 4 million in respect of consultancy fees relating to this transaction. In view of the exceptional nature of the exchange of service areas, these costs were recognised as an incidental item in the profit and loss account. Since the transaction was concluded and completely settled in 2016, these costs are absent in 2017.

The tax effect on the incidental items and fair value gains and losses has been included in the tax item.

The profit after tax from discontinued operations, amounting to € 176 million, in the first half of 2016 related entirely to the book profit on the sale of Endinet to Enexis. It should be noted that the substantial-holding privilege applied to the book profit.

Segment information

Alliander distinguishes the following reporting segments in 2017:

- 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.

The operating profit for the Liander segment in the first half of 2017 amounted to € 199 million, an increase of € 45 million compared with the first half of 2016. The other segment (mainly comprising non-regulated activities, corporate staff departments and service units) posted an operating profit of € -51 million (first half 2016: € -35 million) partly due to the cost of vacancy, stewardship costs and costs related to innovation and new activities. In accordance with Alliander's policy, it will be around 3% of the total annual turnover invested in innovation and new activities in the field of energy transition and sustainability.

Cash flows

Cash flow from operating activities

Cash flow from operating activities in the first half of 2017 was € 152 million (first half 2016: € 106 million). The increase of € 46 million is mainly accounted for by lower interest charges and lower tax on the profit.

Cash flow from investing activities

The cash flow from investing activities in the first half of 2017 was a cash outflow of € 245 million (first half of 2016: € 95 million inflow). This reversal is largely explained by the fact that the proceeds from the sale of Endinet B.V. in 2016 outweighed the price paid to purchase AEF B.V. The investments in property, plant and equipment in the first half of 2017 amounted to € 292 million (first half 2016: € 304 million).

Investments in property, plant and equipment

	1st half	
€ million	2017	2016
Electricity regulated	132	134
Gas regulated	58	59
Metering devices	56	53
Buildings, ICT etc.	46	58
Total[1]	292	304

1 The amounts on page 11 are only related to Liander.

Cash flow from financing activities

The cash flow from financing activities in the first half of 2017 was a cash inflow of € 127 million, compared with an outflow of € 211 million in the corresponding period in 2016. This reversal is mainly accounted for by the ECP financing take up of € 221 million. In the corresponding period in 2016, the cash outflow included the contractual repayment on the Euro Medium Term Notes (EMTN) portfolio and ECP financing repayments.

Financing and credit rating

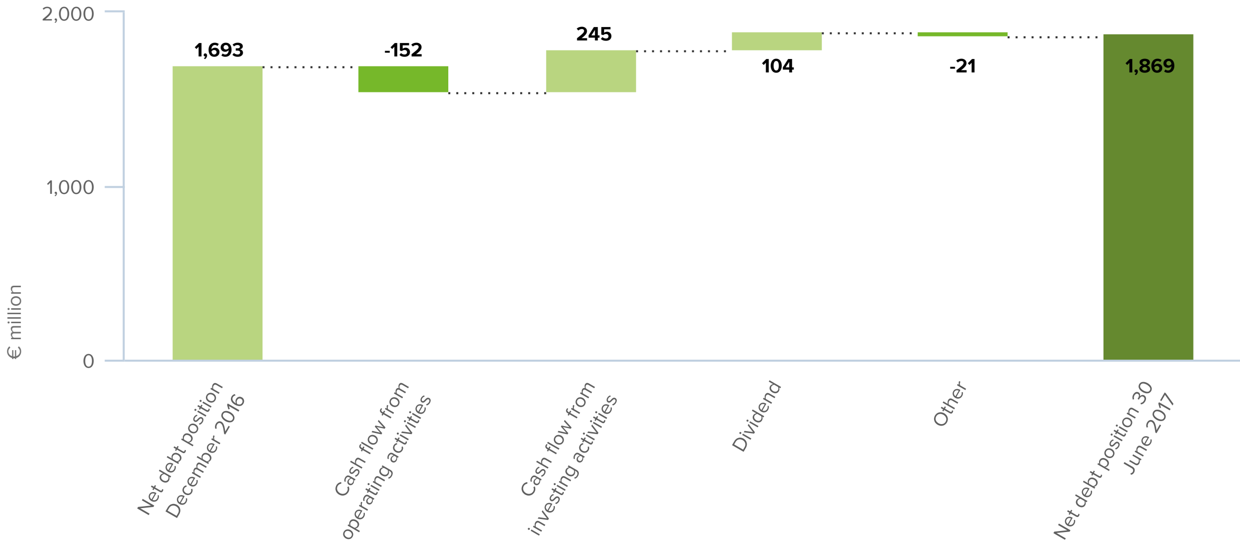
Financial policy

Alliander's financial policy is aimed at achieving a balance between protecting bond holders and other providers of borrowed capital and maintaining an adequate shareholders' return, while preserving the necessary flexibility to enable the company to grow and invest. The financial framework within which Alliander operates is based on the four ratios presented in the targets and results under the financial policy. As at 30 June 2017, all four ratios satisfied the standards set.

The general principles of the financial policy are to ensure a balanced repayment schedule and to have access to committed credit facilities and sufficient cash and cash equivalents. By operating within the financial framework and in accordance with the general principles, a solid A rating profile is maintained.

Net debt position and financing

The net debt position, based on IFRS, as at 30 June 2017 amounted to € 1,621 million (31 December 2016: € 1,445 million) and, based on Alliander's financial policy, € 1,869 million (€ 31 December 2016: € 1,693 million). In a departure from IFRS, when calculating the ratios, the subordinated perpetual bond loan issued in 2013 is treated as 50% equity and 50% debt. The increase of € 176 million is mainly due to the dividend payment for 2016 made in April 2017, amounting to € 104 million, combined with the lower cash flow from operating activities.



Reconciliation of net debt position

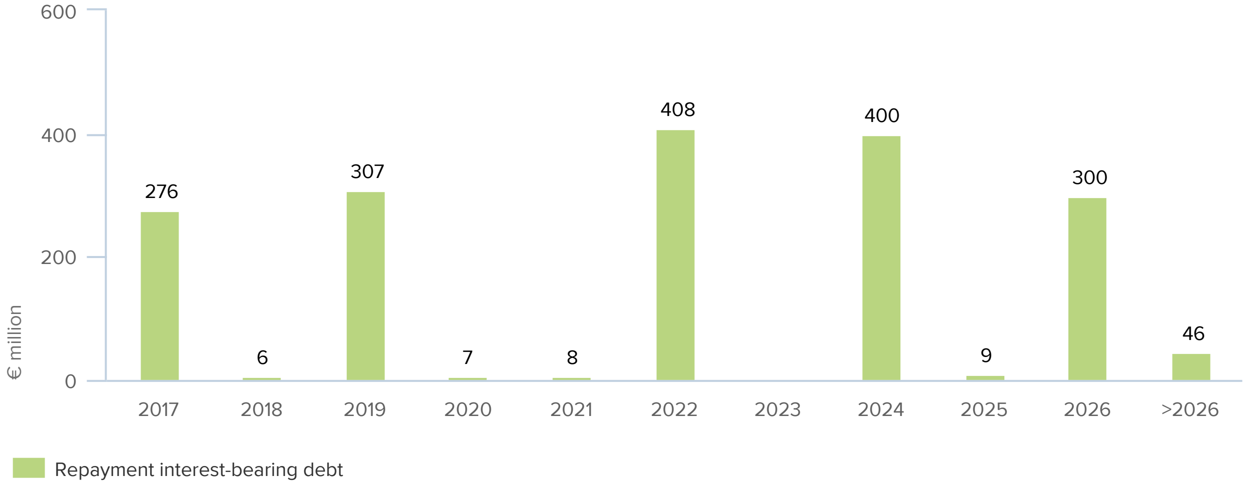
€ million	30 June 2017		As at 31 December 2016	
Long-term interest-bearing debt	1,478		1,483	
Short-term interest-bearing debt	282		81	
Finance lease liabilities	156		168	
Gross debt		1,916		1,732
Cash and cash equivalents	82		48	
Current financial assets	3		15	
Investments held for lease obligations related to cross-border leases	210		224	
Total cash and cash equivalents and investments		295		287
Net debt in accordance with the annual financial statements (IFRS)		1,621		1,445
50% of the subordinated perpetual bond loan		248		248
Net debt on the basis of Alliander's financial policy		1,869		1,693

Credit facilities

As at the end of June 2017, Alliander has at its disposal a revolving credit facility (RCF) for a total amount of € 600 million, running until the end of July 2022. The RCF had not been drawn upon as at 30 June 2017 (unchanged from 31 December 2016). Additionally, Alliander has an Euro Medium Term Notes (EMTN) programme of € 3 billion, under which notes to a value of € 1.4 billion were in issue as at 30 June 2017 (as at 31 December 2016: € 1.4 billion), and an ECP programme of € 1.5 billion, under which short-term commercial paper to a value of € 276 million was in issue as at 30 June 2017 (as at 31 December 2016: € 75 million).

The repayments in the first half of 2017 were mainly connected with the current ECP programme (repayment of short-term issues in January, February, March and May 2017). The repayment obligations in the years ahead are mainly connected with the bond loans under the EMTN programme.

Repayment schedule for interest-bearing debt



Statement by the Management Board

The Management Board hereby declares that, to the best of its knowledge:

1. The consolidated half-year financial statements for 2017 provide a true and fair view of the assets, liabilities, financial position and profit of Alliander N.V. and its consolidated group companies; and
2. The report by the Management Board presents a true and fair account of the state of affairs as at balance sheet date, the main events during the half-year and details of the principal risks and uncertainties for the remaining six months of 2017 for Alliander N.V. and its consolidated group companies.

Arnhem, 26 July 2017

Management Board

Peter Molengraaf[1], CEO
Ingrid Thijssen, CEO (acting), COO
Mark van Lieshout, CFO

1 Peter Molengraaf, Chairman of the Management Board, is absent from 13 March 2017 for a period of six (6) months till the end of August due to a sabbatical. He remains registered as a statutory director of Alliander N.V during his sabbatical. Because of his sabbatical, Peter Molengraaf has been released from the daily management of the company, whereas his tasks are divided over the other members of the Management Board.

Condensed consolidated half-year financial statements 2017

Consolidated income statement

	1st half			
€ million	2017		2016	
Revenue	838		783	
Other Income	71		65	
Total income		909		848
Operating expenses				
Purchase costs and costs of subcontracted work	-196		-195	
Employee benefit expenses	-243		-238	
External personnel expenses	-73		-60	
Other operating expenses	-161		-156	
Total purchase costs, costs of subcontracted work and operating expenses	-673		-649	
Depreciation and impairment of property, plant and equipment	-192		-182	
Less: Own work capitalised	103		91	
Total operating expenses		-762		-740
Operating profit		147		108
Finance income		9		8
Finance expense		-30		-36
Result from associates and joint ventures after tax		-2		-1
Profit before tax from continuing operations		124		79
Tax		-31		-23
Profit after tax from continuing operations		93		56
Profit after tax from discontinued operations		-		176
Profit after tax		93		232

Consolidated statement of comprehensive income

	1st half	
€ million	2017	2016
Profit after tax	93	232
Other elements comprehensive income		
Elements that are settled through the income statement		
Revaluation of available-for-sale financial assets	-1	4
Comprehensive income	92	236

Consolidated balance sheet

€ million		30 June 2017		As at 31 December 2016
Non-current assets				
Property, plant and equipment	6,631		6,529	
Intangible assets	318		319	
Investments in associates and joint ventures	6		9	
Available-for-sale financial assets	210		224	
Other financial assets	35		38	
Deferred tax assets	208		216	
		7,408		7,335
Current assets				
Inventories	72		64	
Trade and other receivables	283		242	
Corporate tax	64		31	
Other financial assets	3		15	
Cash and cash equivalents	82		48	
		504		400
Total assets		7,912		7,735
Equity & liabilities				
Equity				
Share capital	684		684	
Share premium	671		671	
Subordinated perpetual bond	496		496	
Revaluation reserve	45		46	
Other reserves	1,862		1,685	
Result for the period	93		282	
Total equity		3,851		3,864
Liabilities				
Non-current liabilities				
Interest-bearing debt	1,478		1,483	
Finance lease liabilities	156		168	
Deferred income	1,613		1,597	
Deferred tax liabilities	5		5	
Provisions for employee benefits	48		50	
Other provisions	7		5	
		3,307		3,308
Short-term liabilities				
Trade and other payables	106		122	
Tax liabilities	67		63	
Interest-bearing debt	282		81	
Derivatives	14		-	
Provisions for employee benefits	51		46	
Accruals	234		251	
		754		563
Total liabilities		4,061		3,871
Total equity and liabilities		7,912		7,735

Consolidated cash flow statement

€ million	1st half 2017		2016	
Cash flow from operating activities				
Profit after tax		93		232
Adjustments for:				
- Finance income and expense		21		28
- Tax		31		23
- Profit after tax from associates and joint ventures		2		1
- Depreciation and impairment less amortisation		159		150
- Book profit sale Endinet		-		-176
Changes in working capital:				
- Inventories	-8		-5	
- Trade and other receivables	-19		-3	
- Trade and other payables and accruals	-29		-6	
Total changes in working capital		-56		-14
Changes in deferred tax, provisions, derivatives and other		-21		-24
Cash flow from operations		229		220
Net interest paid	-23		-39	
Net interest received	1		1	
Corporate income tax paid (received)	-55		-76	
Total		-77		-114
Cash flow from operating activities		152		106
Cash flow from investing activities				
Investments in property, plant and equipment	-292		-304	
Construction contributions received	47		45	
Acquisition less acquired cash and cash equivalents	-		-5	
Cash flow from asset swap	-		359	
Cash flow from investing activities		-245		95
Cash flow from financing activities				
Redemption EMTN	-		-400	
EMTN issued	-		300	
Redemption long-term debt	-5		-5	
ECP financing issued (redemption)	221		-47	
(Redemption) loans granted	-		1	
Received (granted) current deposits	15		25	
Dividend paid	-104		-85	
Cash flow from financing activities		127		-211
Net cash flow		34		-10
Cash and cash equivalents as at 1 January		48		89
Net cash flow		34		-10
Cash and cash equivalents as at 30 June		82		79

Consolidated statement of changes in equity

€ million	Equity attributable to shareholders and other providers of equity						
	Share capital	Share premium	Subordinated perpetual bond	Revaluation reserve	Other reserves	Profit for the year	Total
As at 1 January 2016	684	671	496	53	1,548	235	3,687
Revaluation of available-for-sale financial assets	-	-	-	4	-	-	4
Profit after tax for the first half of 2016	-	-	-	-	-	232	232
Comprehensive income for the first half of 2016	-	-	-	4	-	232	236
Other[1]	-	-	-	-	-1	-	-1
Dividend for 2015	-	-	-	-	-	-85	-85
Profit appropriation for 2015	-	-	-	-	150	-150	-
As at 30 June 2016	684	671	496	57	1,697	232	3,837
Revaluation of available-for-sale financial assets	-	-	-	-11	-	-	-11
Interest coupon subordinated perpetual bond after tax	-	-	-	-	-12	-	-12
Profit after tax for the second half of 2016	-	-	-	-	-	50	50
As at 31 December 2016	684	671	496	46	1,685	282	3,864
Revaluation of available-for-sale financial assets	-	-	-	-1	-	-	-1
Profit after tax for the first half of 2017	-	-	-	-	-	93	93
Comprehensive income for the first half of 2017	-	-	-	-1	-	93	92
Other[1]	-	-	-	-	-1	-	-1
Dividend for 2016	-	-	-	-	-	-104	-104
Profit appropriation for 2016	-	-	-	-	178	-178	-
As at 30 June 2017	684	671	496	45	1,862	93	3,851

1 Rounding differences.

Dividend

The dividend relating to the 2016 financial year (€ 104 million) was distributed in April 2017 (€ 0.76 per share).

Subordinated perpetual bond loan

The subordinated perpetual bond loan is treated as equity, since Alliander does not have any contractual obligation to repay the loan. Any periodical payments on the loan are also conditional and depend on payments to shareholders.

Notes to the consolidated half-year figures

General

Alliander N.V. is a public limited liability company, registered in Arnhem, the Netherlands. This half-year report contains the financial information for the first half of 2017 relating to the company and its subsidiaries.

The half-year figures have been prepared in accordance with IAS 34 Interim Financial Reporting.

Accounting policies

The same accounting policies were applied in compiling this report as for the 2016 annual report of Alliander N.V., which can be found at www.alliander.com, apart from the following amendments to the standards and interpretations effective as from 1 January 2017.

New or amended IFRS standards for 2017

Various changes and corrections to IFRS standards and interpretations, yet to be endorsed by the EU, came into effect at the beginning of 2017. Since these changes and corrections do not have a material impact on Alliander, they are not itemised here. For a more detailed explanation of the IFRS amendments see Alliander's annual account 2016. No other changes haven taken place in the first half of 2017.

Estimates, judgements and assumptions

In preparing this half-year report, Alliander makes use of judgements, assumptions and estimates. This essentially relates to the measurement of provisions, deciding the useful lives of items of property and any indication of impairment of items property, plant and equipment, plant and equipment, revenue recognition, amounts of receivables and the calculation of the amount of the deferred tax assets as well as the determination of the current tax position. The estimates, judgements and assumptions 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 a given situation. Actual developments may differ from the estimates and assumptions used. As a result, the actual outcome may differ significantly from the current measurement of a number of items in the financial statements. 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.

Segment information

Alliander distinguishes the following reporting segments in 2017:

- Network operator Liander;
- Other.

The segmentation reflects Alliander's internal reporting structure. The networks taken over in Friesland and the Noordoostpolder with effect from 1 January 2016 have been included in the network operator Liander sector.

The figures disclosed below for each reporting segment, excluding incidental items and fair value movements, are shown in the table entitled 'Primary segmentation 1st half-year'. These figures are a direct reflection of the regular internal reporting. A reconciliation of the consolidated segment information and the reported profit before tax is also provided.

Reconciliation of segment operating profits and consolidated profit

	1st half	
€ million	2017	2016
Consolidated segment operating profits excluding incidental items	148	119
Incidental items and fair value movements	-1	-11
Finance income and expense	-21	-28
Share in results from associates and joint ventures	-2	-1
Profit before tax from continuing operations	124	79

Primary segmentation first half-year

€ million	Network operator Liander 2017	Network operator Liander 2016	Other 2017	Other 2016	Eliminations 2017	Eliminations 2016	Total 2017	Total 2016
Operating income								
External income	836	774	73	74	-	-	909	848
Internal income	2	2	143	163	-145	-165	-	-
Operating income	838	776	216	237	-145	-165	909	848
Operating expenses								
Operating expenses	639	622	267	272	-145	-165	761	729
Operating profit	199	154	-51	-35	-	-	148	119

Segmented assets and liabilities	Network operator Liander 30-6	Network operator Liander 31-12	Other 30-6	Other 31-12	Eliminations 30-6	Eliminations 31-12	Total 30-6	Total 31-12
Total assets	7,064	6,985	3,052	2,386	-2,267	-1,636	7,849	7,735
Total liabilities	4,680	5,216	2,039	1,858	-2,688	-3,203	4,031	3,871

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

EMTN and ECP programmes
ECP totalling € 542 million, denominated in US dollars ($585 million), has been issued in 2017. To hedge the currency risk, a number of US dollar forward currency operations were contracted immediately at the time of issue of the ECP.

The repayments in the first half of 2017 were chiefly connected with the current ECP programme (repayment of short-term issues in January, February, March and May 2017) and totalled € 245 million. The value in US dollars was $270 million. Remaining repayments in 2017 principally relate to the current ECP issues still outstanding and those in the years ahead mainly concern the bond loans under the EMTN programme.

Business combinations

In the first half of 2017 Alliander has not entered into new business combinations. The business combinations related to the first half of 2016 are the purchase of AEF B.V. as of the 1st of January 2016 and the purchase of 450connect GmbH as of the 31th of May 2016.

Sale of Endinet and purchase of networks in Friesland and the Noordoostpolder
The sale and purchase agreement (SPA) to purchase the Enexis networks in Friesland and the Noordoostpolder (Aktivabedrijf Enexis Friesland B.V., hereafter AEF B.V.) on 1 January 2016 and at the same time sell the networks in the Eindhoven and Zuidoost-Brabant region (Endinet Groep B.V.) was signed on 27 July 2015. The transaction involved Alliander selling the shares of Endinet Groep B.V. to Enexis B.V. and buying the shares of AEF B.V. from Enexis with an additional payment by Enexis of € 365 million. AEF B.V. has 51,000 electricity and 196,000 gas connections in Friesland and 28,000 electricity and 27,000 gas connections in the Noordoostpolder. The AEF B.V. networks are surrounded by the area serviced by Liander and their acquisition will make for more efficient operations. The acquisition is also entirely in line with the strategy of having a single network operator for both electricity and gas in any one area or region. Alliander acquired total control of AEF B.V. on 1 January 2016 and has included the company in the Alliander consolidation with effect from that date.

The book profit concerning the sale of Endinet is recognised in the result from discontinued operations in the income statement for 2016.

Purchase of 450connect GmbH

On 31 May 2016, Alliander AG purchased the entire share capital of Inquam Deutschland GmbH (name changed to 450connect GmbH). 450connect GmbH is active in leasing communication network bandwidth to third parties, including provision of related services. The purchase of 450connect GmbH will enable Alliander AG to establish a private mobile communication network for critical infrastructure (mainly concerning network operators) for smart meter and smart grid applications among others. Alliander N.V. has been developing a similar communication network in the Netherlands in partnership with Stedin since 2014, owned by the joint operation Utility Connect. Alliander AG acquired total control of 450connect GmbH on 31 May 2016 and has included the company in the Alliander AG consolidation with effect from that date.

A detailed explanation on these transactions can be found in the annual account of 2016 of Alliander.

Cross-border lease contracts

In the period 1998 to 2000, subsidiaries of Alliander N.V. entered into cross-border leases for networks with US investors, including LILO (lease-in lease-out) and SILO (sale-in lease-out) transactions.

There were no changes in the existing CBL portfolio in 2017. 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 assets forming the object of cross-border leases as at mid-2017 amounted to € 0.6 billion (year-end 2016: € 0.5 billion). At the end of June 2017, a total of $ 2.8 billion (year-end 2016: $2.7 billion) 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 assets over which Alliander does have powers of disposal are recognised as financial assets. The associated lease obligations are recognised in finance lease liabilities.

At the end of June 2017, the 'strip risk' (the portion of the 'termination value' - the possible compensation payable to the American counterparty in the event of early termination of the transaction - which cannot be settled from the deposits and investments held for this purpose) for all transactions together was $ 188 million (year-end 2016: $ 194 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 30 June 2017 was € 90 million (year-end 2016: € 95 million).

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. These associates and joint ventures are consequently designated as related parties. Transactions with these parties, some of which are significant, are executed on market terms and at market prices which are not more favourable than those which would be negotiated with independent third parties.

The following transactions were entered into with related parties for the purchase and sale of goods and services: sale of goods and services to associates € 0.4 million (first half 2016: € 0.2 million) and joint ventures € 46 million (first half 2016: € 36 million); purchase of goods and services from associates € 7 million (first half 2016: € 5 million) and from joint ventures € 46 million (first half 2016: € 44 million).

As at 30 June 2017, Alliander had assets of € 17 million (year-end 2016: € 17 million) in respect of loans granted to related parties and assets of € 16 million in respect of agreed borrowings on current accounts with related parties (year-end 2016 liabilities of: € 9 million).

Other

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. With respect to the periodical payments made to the holders of the bonds issued in 2010, it was assumed that the interest expense would be deductible for corporate income tax purposes.

So far, no agreement has been reached with the Dutch Tax & Customs Administration concerning the tax treatment of this loan. In the ongoing appeal proceedings, the District Court at Arnhem upheld Alliander's appeal in a ruling dated 20 December 2016. The Dutch Tax & Customs Administration has now taken the case to the Court of Appeal.

In 2016, Alliander settled the corporate income tax assessments for the years 2010-2013. These assessments did not make allowance for the aforementioned deductible interest expense. The situation also has repercussions for the ability to utilise tax loss carryforwards as and when required. Based on the advice of external consultants, the Management Board decided to recognise a receivable in respect of the disputed corporate income tax paid in 2016 and 2017. 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. The total maximum exposure for Alliander is around € 35 million.

For the non-balance sheet rights and obligations, no significant changes occurred compared to the end of 2016.

Information on risks and financial instruments

Financial risks

The following financial risks can be identified: market risk, credit risk, currency risk and liquidity risk. The condensed consolidated half-year financial statements do not, as is required for the full-year consolidated financial statements, contain comprehensive information on the above financial risks to which Alliander is exposed and the policy for managing the risks associated with financial instruments and should be read in conjunction with the 2016 consolidated financial statements. There have been no changes in the risk management process or risk management policy since the end of 2016. There were no material credit-related losses in the first half of 2017.

Measurement of the fair value of financial instruments recognised at fair value

Disclosed in the following table are the financial instruments that are carried at fair value, ranked according to the fair value hierarchy. According to this hierarchy, the input data levels for measuring fair value are 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

	30 June 2017				As at 31 December 2016			
€ million	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Available-for-sale financial assets	-	210	-	210	-	224	-	224
Total Assets	-	210	-	210	-	224	-	224
Liabilites								
Current derivatives	-	14	-	14	-	-	-	-
Total Liabilities	-	14	-	14	-	-	-	-

Methods used for level 2 fair value measurement

Available-for-sale financial assets consist of investments in securities whose fair value is equal to the carrying amount. These assets relate to cross-border lease contracts. The fair value is arrived at by discounting the future cash flows using the interbank interest rate as at the reporting date plus market credit spreads for these or similar investments.

The other derivatives in Level 2 relate to currency derivatives. These are valued based on the present value of future cash flows, using the interbank interest rate applicable on the reporting date. The current value in foreign currency is translated at the exchange rate prevailing on the reporting date.

Fair value of other financial instruments

The following table lists the fair values of the financial instruments that are not recognised at fair value but at amortised cost, including the fair value hierarchy levels of the input data used. Also shown is the input data level according to the fair value hierarchy.

Fair value of financial assets and liabilities measured at amortised costs

	30 June 2017		As at 31 December 2016	
€ million	Fair value	Level	Fair value	Level
Non-current assets				
Other financial assets	40	2	45	2
Liabilities				
Non-current liabilities				
Finance lease liabilities	-210	2	-232	2
Interest-bearing debt:				
Euro Medium Term Notes	-1,533	1	-1,564	1
Other interest-bearing debt	-108	2	-116	2
Total non-current liabilities	-1,851		-1,912	
Short-term liabilities				
Interest-bearing debt:				
Euro Medium Term Notes	-	1	-	1
Euro Commercial Paper	-276	2	-75	2
Other interest-bearing debt	-10	2	-13	2
Total short-term liabilities	-286		-88	
Total liabilities	-2,137		-2,000	

Measurement of fair value

The fair value of these instruments is measured as follows:

Other financial assets: The fair value of loans granted by Alliander is measured on the basis of the incoming cash flows discounted using risk-free interest rates plus credit spreads for these or similar investments. As regards the current portion of these assets, it is assumed that the fair value is more or less the same as the carrying amount.

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 liabilities is measured on the basis of the 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.

Events after balance sheet date

Alliander Participaties B.V., in conjunction with Fudura B.V., reached heads of agreement with SPIE Nederland B.V. on 10 July 2017 to dispose of the joint venture Ziut B.V. because the services provided by Ziut B.V. no longer fitted in with the strategic core activities. The innovative nature and the experience of SPIE Nederland B.V. provide a sound and valuable basis that will enable Ziut B.V. to progress in a rapidly changing market and take even greater advantage of the opportunities that present themselves. Under the terms of the preliminary agreement, the various parties will be engaging in further talks. Final agreement should be reached as soon as matters have been cleared with the works council, the unions and the regulator. The sale is not expected to have an important financial impact.

Alliander signed a loan agreement of € 300 million on 21st of July 2017 with the European Investment Bank (EIB). This loan will be used to renew and expand the Liander networks. The loan period is at least 3 years and up to 14 years and will be repaid as a lump sum at maturity date. This loan will be made available in multiple tranches at which interest will be determined at that time.

Review report

To: The Supervisory Board and Board of Directors of Alliander N.V.

Introduction

We have reviewed the accompanying condensed consolidated interim financial information of Alliander N.V., Arnhem, which comprises the statement of financial position as at June 30, 2017, the statements of comprehensive income, changes in equity, and cash flows for the period January 1, 2017 till June 30, 2017, and the notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on the condensed consolidated interim financial information based on our review.

Scope

We conducted our review in accordance with Dutch law including standard 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at June 30, 2017 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Rotterdam, July 26, 2017

Deloitte Accountants B.V.

J. Dalhuisen

July 2017

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