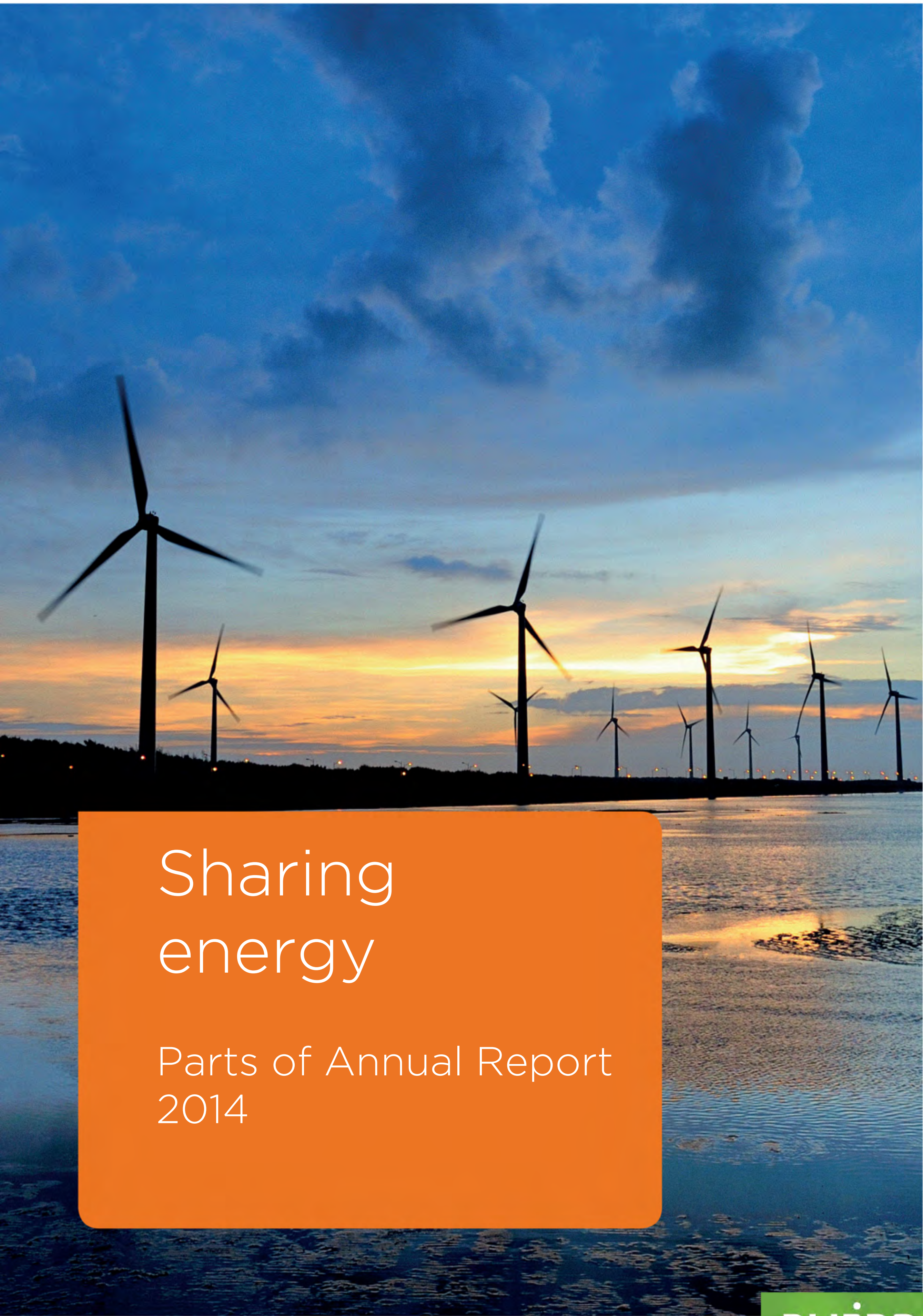


Sharing energy

Parts of Annual Report 2014

alliander

Table of contents

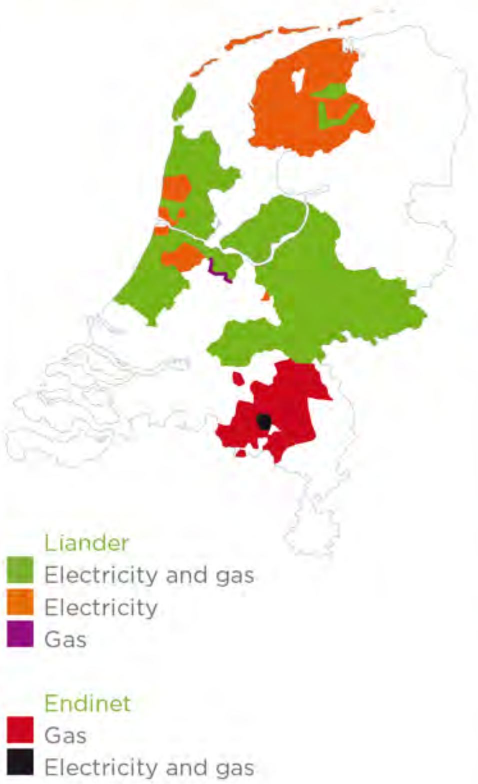
Company profile

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

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

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

Our service area



2014 in figures

Customer connections
5.7 million

Number of employees
7,170

Electricity outage duration[1]
19.9 minutes

CO_2 emissions
921 ktonnes

Revenue
1.7 € billion

Investments
570 € million

Total assets
7.6 € billion

Operating profit
323 € million

Size of electricity distribution network
88,000 km

Size of gas distribution network
42,700 km

1 Concerns Liander

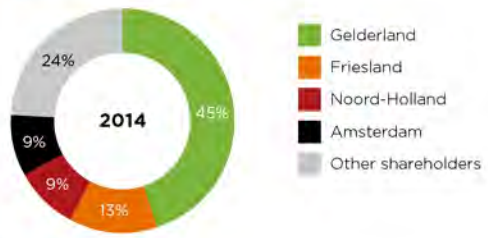
Organisational structure

Other activities

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

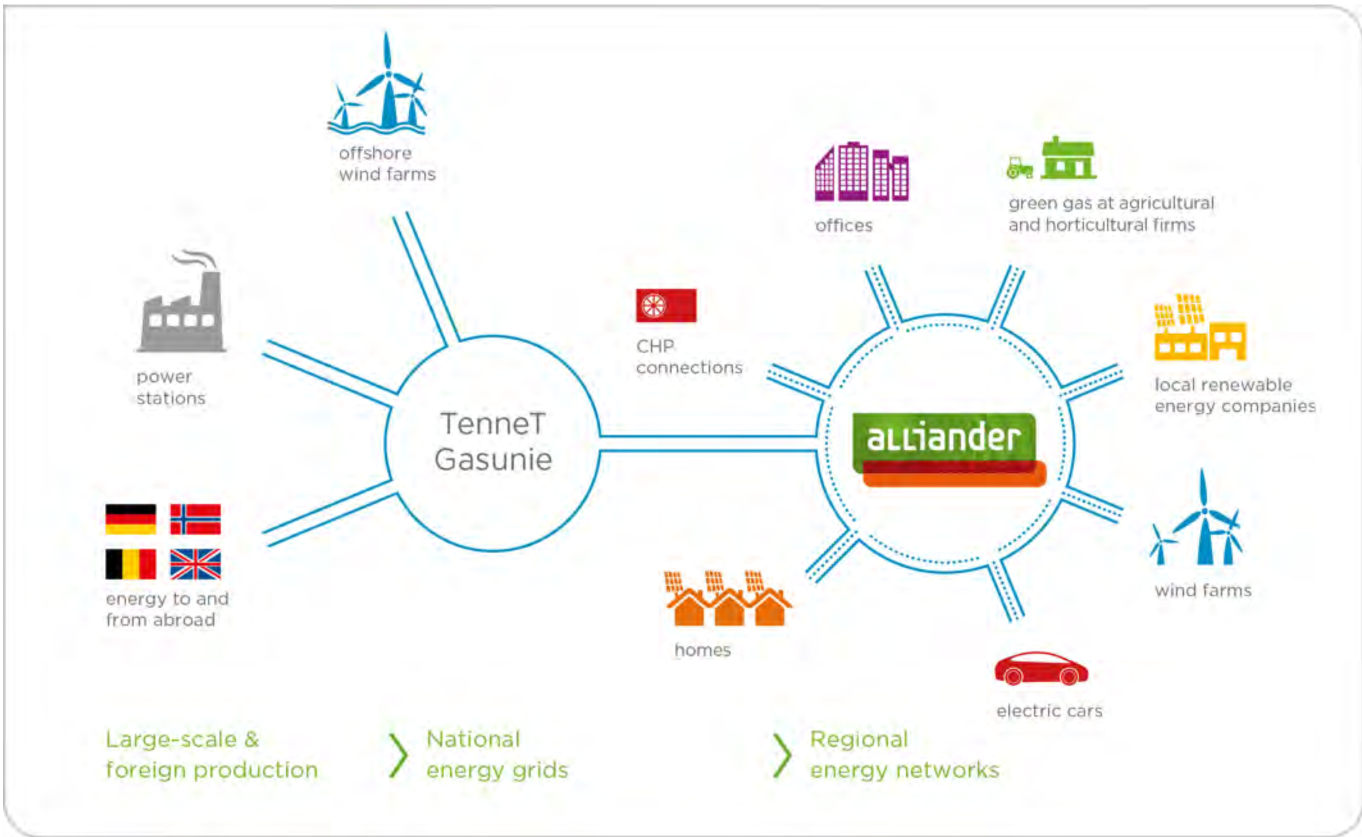
The shareholders of Alliander are Dutch provinces and municipalities. The largest shareholders are the provinces of Gelderland, Friesland and Noord-Holland and the municipality of Amsterdam. For more information about our legal structure, visit alliander.com or read more about our corporate governance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

Shareholders



Our role in the energy sector

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



Trends and market developments

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

Developments in the energy market

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

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

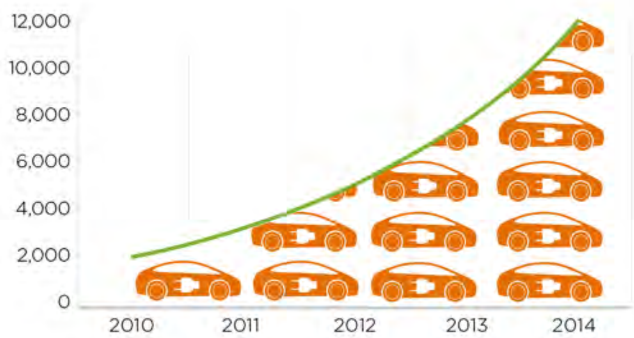
Number of feed-in installations at our customers[1]

Solar

Source: Productie Installatie Register (PIR)

1 Concerns Liander

Number of charging points in the Netherlands



Source: Ministry of Economic Affairs

Political and regulatory developments

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

Developments in information technology

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

Our opportunities and challenges

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

Where are our opportunities and challenges?

Strengths
- Satisfied customers
- High reliability of energy supply
- Good technical expertise of employees
- Good employment practices
- Solid financial position
- Engaged with our communities
- Sustainable partner

Weaknesses
- Limited opportunities for increases in scale
- High CO_2 emissions related to energy transportation
- Limited speed of adaptability of business processes
- Less than optimal efficiency in operations

Opportunities
- Asset swapping and consolidation
- Investments in telecom and digitisation
- Partnerships with municipalities and energy cooperatives
- Investments in new markets and start-ups, such as sustainable area development, electric mobility and sustainable housing

Threats
- High pace of energy transition
- Impact of third parties on the continuity of our networks (e.g. excavation damage)
- Cybercrime

Strategy

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

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

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

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

Three strategic pillars

Pillar	Objectives
Operations	Continue to improve our performance on services, security of supply and costs through more efficient working practices and doing things 'first time right'.
Innovation	Facilitate a more sustainable energy market, make energy networks suitable for renewable energy sources and develop innovative technologies and concepts.
Growth	Grow to improve and strengthen our financial position, so that major investments can be realised in the future. Further priorities are to diversify risks, remain attractive to stakeholders and learn from innovations.

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

Implementation and control

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

Risk management

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

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

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

Overview of main risks

Click on the illustration for an explanation of the development of our risks and the mitigating measures we took in 2014. You can read more about the possible impact of risks on our strategic objectives in the stakeholder chapters in this annual report and in the appendix. Though we explored opportunities to build scale in 2014, no concrete initiatives were taken (or associated risks run) in this connection. Financial risks, including our credit risk, are explained in Note 34 to the financial statements.

Value creation for stakeholders

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

Our story in 2014

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

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

Results on strategic pillars

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

Operations

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

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

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

Innovation

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

Growth

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

Going forward to a new future

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

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

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

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

Strengthening our organisation

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

Peter Molengraaf
Ingrid Thijssen
Mark van Lieshout

Alliander Management Board

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

Shareholders and investors

A sound investment

Alliander enjoys a healthy financial position. This is largely the result of the determined pursuit of our financial policy, which is essentially geared to maintaining a solid A rating profile. Continuing to pursue this financial policy enables us to be and to remain a financially sound investment, for both bondholders and shareholders.

Network investment

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

Sustainability strategy

We aim to be a company that recognises its corporate social responsibility. This involves making our operations as sustainable as possible. For instance, we aim to reduce our CO_2 footprint as far as possible and, where we do have CO_2 emissions, we aim to match them with green certificates (renewable energy certificates – RECs). In our efforts to reduce CO_2 emissions we work closely with our suppliers. An important task for Alliander is to facilitate the transition to a sustainable energy supply. A large part of our efforts on this front is concerned with modifying the existing networks to accommodate the feed-in of renewable energy from decentralised power generation systems. On top of that we have embarked on new activities, including the construction and operation of district heating networks and of charge points creating the necessary infrastructure for electric vehicles. Alliander also sees it as its task to encourage and to facilitate such sustainability-related activities. Our efforts in the field of sustainability show that an investment in Alliander is also a socially responsible investment.

Importance of sustainability performance

Further evidence of the growing importance of sustainability performance with respect to raising finance is provided by the growing popularity of green bonds, used by companies to generate funding for investments with specific sustainability objectives. Our shareholders recognise the importance of a financially sound network company with a proactive stance when it comes to facilitating the energy transition and fully back our ambitions in this field. The fact that our networks are mostly located in the provinces and municipalities of our shareholders means that they are immediately affected if our networks do not function properly. They also make use of Alliander's expertise in setting up initiatives for local renewable energy projects.

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

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

Financial results in 2014

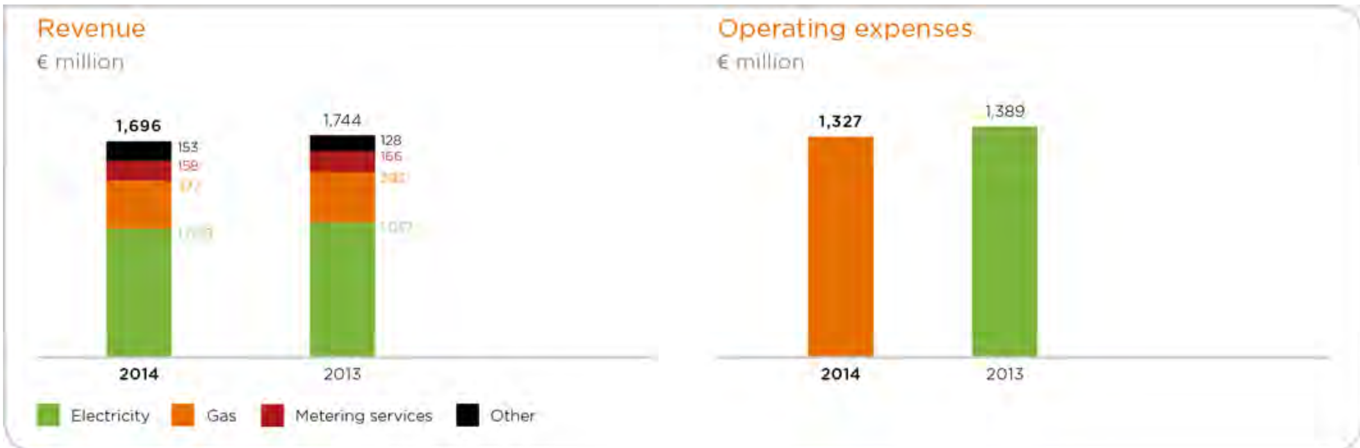
The profit after tax for 2014 was €323 million (2013: €288 million). Excluding incidental items and fair value gains and losses, net profit amounted to €240 million (2013: €287 million). Revenue generated by the regulated activities in 2014 was lower than in the preceding year, owing to the lower tariffs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

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

Income statement for 2014

Revenue

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



Other income

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

Operating expenses

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

Analysis of operating expenses

€ million	2014	2013
Purchase costs and costs of subcontracted work	406	416
Employee benefit expenses	583	560
Other operating expenses	159	247
Depreciation and impairment of property, plant and equipment	354	357
Less: Own work capitalised	-175	-191
Total	**1.327**	**1.389**

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

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

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

Notes on the CDS

The credit default swap derivative instrument has been part of two cross-border lease contracts since 2005. The CDS is a product which transfers the credit exposure on an underlying portfolio made up of almost 100 loan stocks. The instrument has a maturity of 10 years (maturing at the end of June 2015) and Alliander's maximum risk exposure is €171 million. An impairment loss on the CDS was recognised in 2008 and, in view of the then prospects for the product, it was decided at the time to recognise a provision in respect of the maximum risk exposure of $171 million. The greater part of this provision related to the fair value of the CDS (which was negative), with an additional provision up to the amount of the maximum risk. This approach was maintained up to year-end 2013, based on the expected risks.

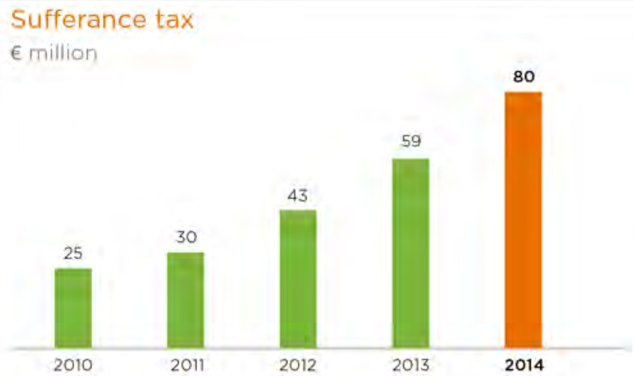
In December 2014, the fair value of the CDS was $18 million (€15 million) and the additional provision amounted to $153 million (€127 million). As at year-end 2014, the remaining term to maturity of the CDS was only six months. The management of Alliander concluded that the default risk among the companies in the CDS portfolio (between then and the expiration date of the instrument) had diminished in the preceding 12 months and that the maximum risk relating to the entire product was therefore covered by the fair value. Under the criteria stipulated in IAS 37, this meant that the entire amount of the provision of $153 million (€127 million) should be released to income and set against operating expenses. However, Alliander's management took the view that this fair value did not sufficiently reflect the remaining risks attendant upon the product. Based on an internal risk analysis, a valuation of $75 million (€62 million) as at year-end 2014 was arrived at. The difference, of $57 million (€47 million), has been recognised in operating expenses. The net effect is that the dollar amount released from provisions with respect to the CDS in 2014 and set against operating expenses was the equivalent of €80 million.

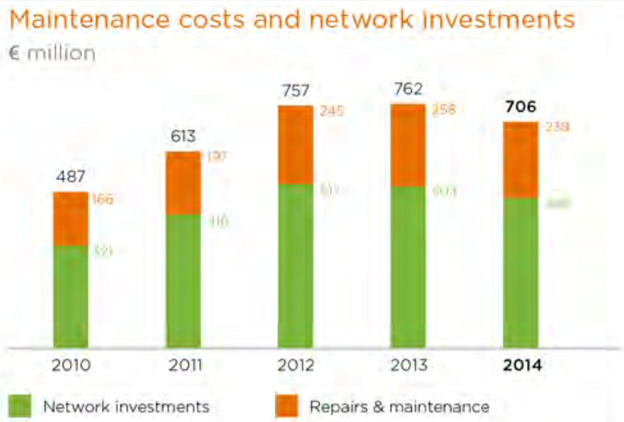
Sufferance taxes and maintenance costs and network investments

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

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

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





Operating expenses from a management perspective

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

Analysis of operating expenses, excluding incidental items

€ million	2014	2013
Purchase costs	424	358
Process costs	335	370
Indirect costs	286	293
Depreciation	354	357
Total	**1.399**	**1.378**

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

Operating profit

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

Finance income and expense

Finance income and expense in 2014 resulted in a net expense of €98 million (2013: €69 million). The increase of €24 million is largely explained by incidental items, including the exchange losses on the CDS in 2014 (€19 million) due to the movements in the dollar exchange rate and, in 2013, the finance income (€13 million) deriving from the amount recognised in respect of the KEMA put/call options. Eliminating these exceptionals, the net expense was in fact down by €8 million at €74 million (2013: €82 million).

Associates and joint ventures

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

Tax

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

Profit after tax

The profit after tax for 2014 came in at €323 million (2013: €288 million). Excluding incidental items and fair value gains and losses, the 2014 profit after tax amounted to €239 million (2013: €287 million). The increase of €35 million is due to the release of the provision relating to the CDS and to the proceeds from the sale of the KEMA shares. These gains were partially eliminated by the effect of the reduced revenue due to lower tariffs on the regulated activities.

Incidental items

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

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

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

Reported figures and figures excluding incidental items and fair value movements

€ million	Reported		Incidental items and fair value movements		Excluding incidental items and fair value movements	
	2014	2013	2014	2013	2014	2013
Revenue	1.696	1.744	-	-	1.696	1.744
Other income	141	102	40	-	101	102
Total purchase costs, costs of subcontracted work and operating expenses	-1.148	-1.223	72	-11	-1.220	-1.212
Depreciation and impairments	-354	-357	-	-	-354	-357
Own work capitalised	175	191	-	-	175	191
Operating profit (EBIT)	**510**	**457**	**112**	**-11**	**398**	**468**
Finance income/(expense)	-93	-69	-19	13	-74	-82
Result from associates and joint ventures	-	2	-	-	-	2
Profit before tax	**417**	**390**	**93**	**2**	**324**	**388**
Tax	-94	-102	-10	-1	-84	-101
Profit after tax	**323**	**288**	**83**	**1**	**240**	**287**

Other income

(2014: €40 million gain, 2013: nil)

Sale of interest in KEMA

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

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

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

Total purchase costs, costs of subcontracted work and operating expenses

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

The net gain is made up of an incidental gain and an incidental loss. The incidental gain of €80 million in 2014 concerns the release of part of the provision relating to the CDS as a result of a reduction in the estimated risk combined with the short remaining period to maturity.

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

Finance income and expense

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

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

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

Tax

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

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

Cash flows

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

Consolidated cash flow statement

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

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

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

Investments in property, plant and equipment

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

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

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

Free cash flow in 2014

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

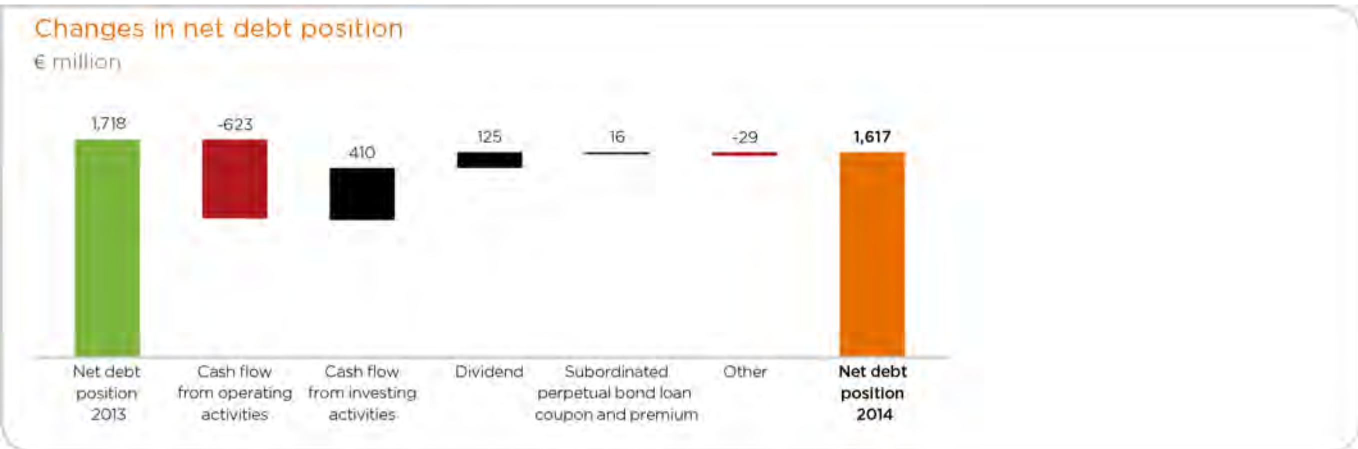
Free cash flow reconciliation

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

Financial position

Net interest-bearing debt

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



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

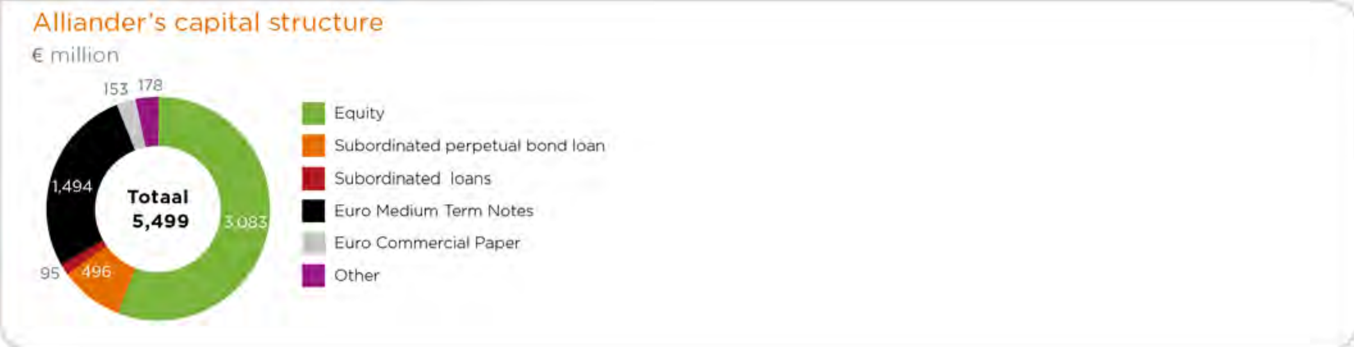
Net debt position reconciliation

€ million	31 December 2014		31 December 2013	
Long-term interest-bearing debt	1.616		1.611	
Short-term interest-bearing debt	159		284	
Finance lease liabilities	145		127	
Gross debt		**1.920**		**2.022**
Cash and cash equivalents	167		155	
Non-current financial assets	-		136	
Current financial assets	184		100	
Investments held for lease obligations related to cross-border leases	200		161	
Total cash and cash equivalents and investments		**551**		**552**
Net debt in accordance with the annual financial statements (IFRS)		**1.369**		**1.470**
50% of the subordinated perpetual bond loan		248		248
Net debt on the basis of Alliander's financial policy		**1.617**		**1.718**

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

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

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



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

Open dialogue

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

Financial policy and long-term objectives

Financial framework

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

Ratios based on Alliander's financial policy

	norm	31 December 2014	31 December 2013
FFO/net debt[1]	> 20%	34,0%	38,7%
Interest cover[2]	> 3,5	7,6	8,0
Net debt/(net debt + equity)	< 60%	33,6%	36,5%
Solvency[3]	> 30%	53,6%	51,1%

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

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

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

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

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

Dividend policy

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

Investment policy

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

Shareholders

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

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

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

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

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

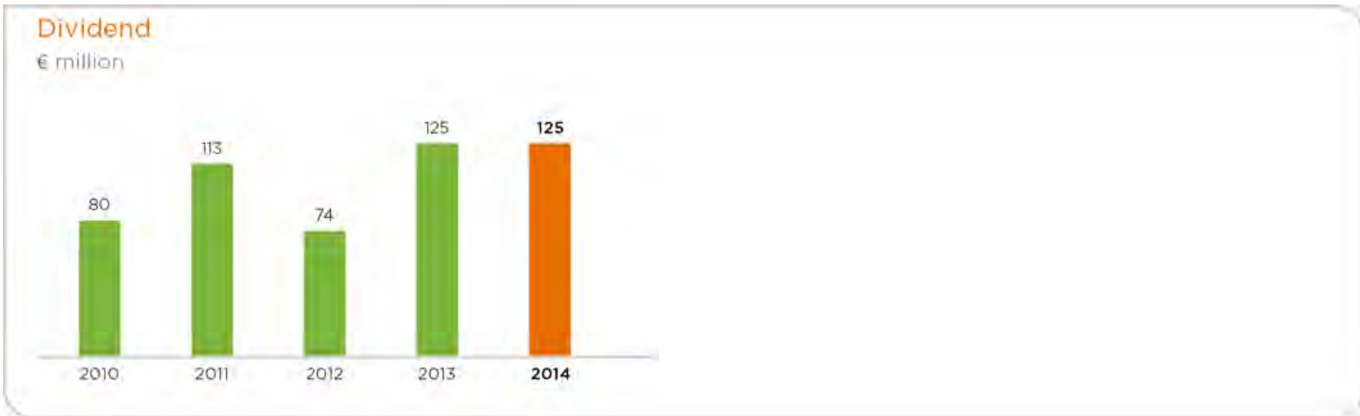
Alliander's AGM was held on 2 April 2014. The meeting considered the 2013 annual report and formally adopted the 2013 financial statements and the dividend declaration in respect of 2013. The shareholders also ratified the executive decisions of the members of the Management Board in 2013 and the supervision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

Alliander's shareholders are Dutch provincial and municipal authorities, including the Province of Noord-Holland.
"Alliander is a good and much appreciated partner in our Province. The network company is not only concerned with the present but also with the future. I value the way in which Alliander is prepared to share its knowledge regarding energy transition and sustainable area development. They get involved in energy-related regional problems, such as our district heating system in Zaanstad, a wind farm in the Wieringermeer and a study to pipe CO_2 to greenhouse growers in our region. Simply by consulting each other about long-term investments in this way we are included as a shareholder in these strategic decisions."
Jaap Bond, member of the Noord-Holland Provincial Executive

Proposed profit appropriation for 2014

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

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



Institutional investors

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

Interest-bearing debt

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

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

Banks

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

Rating agencies

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

Credit ratings

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

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

Sustainability rating

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

Segment reporting

General

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

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

The figures for each reporting segment, excluding incidental items and fair value movements, are shown in the following table. These figures are a direct reflection of the regular internal reporting. Detailed information on segment reporting can be found on page XX of the financial statements.

Primary segmentation

	Network operator Liander		Network company Endinet		Other		Eliminations		Total	
€ million	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Operating income										
External income	1.586	1.642	108	117	103	87	-	-	1.797	1.846
Internal income	5	3	-	-	308	315	-313	-318	-	-
Operating income	**1.591**	**1.645**	**108**	**117**	**411**	**402**	**-313**	**-318**	**1.797**	**1.846**
Operating expenses										
Operating expenses	1.175	1.185	87	90	450	421	-313	-318	1.399	1.378
Operating profit	**416**	**460**	**21**	**27**	**-39**	**-19**	**-**	**-**	**398**	**468**

Network operator Liander

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

Network company Endinet

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

Other

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

Balance sheet

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

Consolidated balance sheet

	Alliander N.V.	
€ million	31 December 2014	31 December 2013
Assets		
Non-current assets	7.012	6.933
Current assets	651	593
Non-current assets held for sale	9	22
Total assets	**7.672**	**7.548**
Equity and liabilities		
Total equity	3.579	3.375
Non-current liabilities	3.384	3.476
Current liabilities	709	697
Total equity and liabilities	**7.672**	**7.548**

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

Non-current assets

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

Current assets

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

Assets held for sale

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

Equity

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

Non-current liabilities

The amount of non-current liabilities was down by €45 million compared with 31 December 2013. This decrease is mainly due to the reclassification of the CDS and associated provisions as current liabilities in connection with the maturity of the instrument on 22 June 2015. This decrease was partially offset by an increase in deferred income and finance lease liabilities.

Current liabilities

The current liabilities as at 31 December 2014 were down by €35 million compared with the position as at year-end 2013, at €662 million. The decrease is largely explained by the repayment of the EMTN loans, the effect of which was reduced by the short term ECP financing.

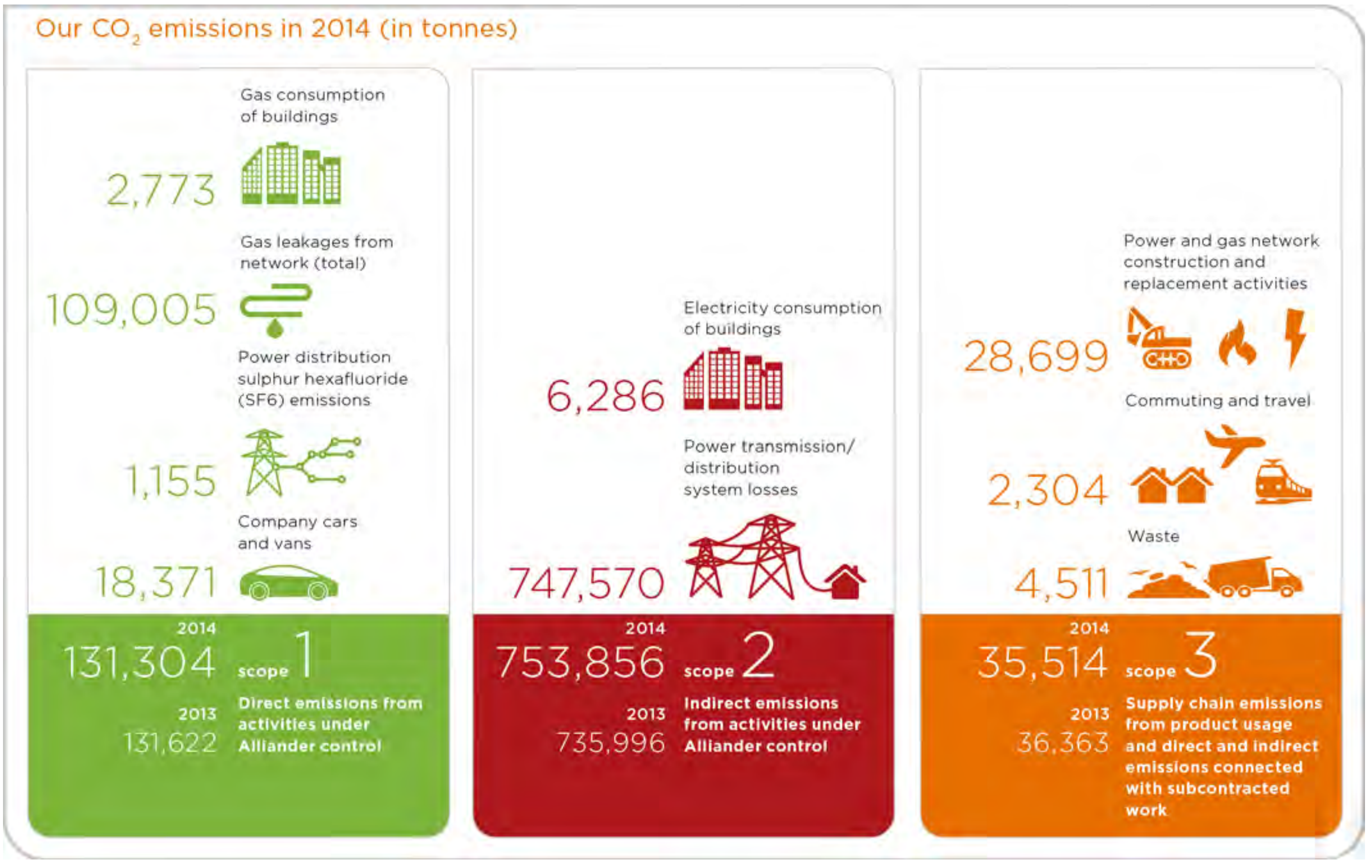
Our sustainability performance

Alliander is working towards a sustainable energy supply in the Netherlands and also on making the company's own operations sustainable. We recognise our responsibility for the impact we have on the environment. Our careful use of energy and raw materials is in response to the wishes of our stakeholders. During the reporting period we recorded various results relating to CO_2 emissions, usage of resources and sustainable partnerships in the supply chain.

Energy consumption and CO_2

Despite a range of measures, our CO_2 emissions rose to 921 kilotonnes.1 This is 17 kt more than in 2013, or an increase of 2%. This mainly represents accounting adjustments relating to our customers in respect of the past two years. Excluding these adjustments, most of our emissions remained steady or were down slightly. Our fleet of electric vehicles, for instance, has grown to around 70. A particular achievement was the commissioning of a climate-neutral substation in Lochem, which is good for a reduction of 70 t of CO_2. Many of the measures taken are scalable. Full details of our CO_2 reduction measures can be found in the background information.

1. In order to increase the information provided and enhance comparability between network operators we are using a new industry-wide method for calculating our CO_2 impact with effect from 2014. As a consequence, our objectives and results have been recalculated using this method. In 2013 we reported CO_2 emissions of 819 kt.



Going green by using renewables

Alliander has a substantial CO_2 footprint of around 0.22 tonnes per customer connection to the electricity supply system. 90% of this figure is accounted for by grid losses, associated with the distribution of both electricity and gas. In 2014 we signed an initial contract with the operator of a planned new wind farm in the Netherlands. By procuring power from this renewable source of energy under the 'Guarantees of Origin' scheme we shall be going green with respect to around 15% of our CO_2 emissions from 2017 onwards. This represents a first step on the road to becoming climate neutral by 2023. We expect several distribution system operators to follow the strategic direction we have taken. This is something we are trying to encourage through the 'Groene Netten' (Green Networks) national coalition initiated by Alliander in 2014.

CO2 performance ladder

Our approach to the reduction of CO_2 emissions and the method we employ is subjected to external scrutiny by reference to the CO_2 performance ladder. As at 1 January 2014, Alliander was again certified at level 4 (5 is the top rung of the ladder). The ladder provides a measure of a company's ambitions and performance with respect to CO_2 emissions. CO_2 certification is increasingly becoming a condition for securing contracts. Alliander's ambition is to reach level 5 in 2015. To achieve this we shall be concentrating more on initiatives in the supply chain aimed at further reducing the combined emissions of the whole chain. In 2014, we organised a roundtable meeting on CO_2 emissions with a number of contractors and civil-society organisations. This revealed how important it is to have regular and open dialogue and together to look for ways of achieving reductions. The main conclusion was that bilateral project agreements give a greater guarantee of reductions across the supply chain.

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

Progress in reducing raw material consumption

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

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

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

Supply chain responsibility

An annual procurement volume of around €750 million in products and services, from suppliers of our choosing, makes us acutely aware of our supply chain responsibilities. Our procurement policy is aimed at improving the world we live in by applying strict supplier selection criteria when inviting tenders and entering into specific supplementary agreements with partners, for example in relation to working conditions, extraction of raw materials, recycling or CO_2 emissions.

Additionally, in 2014 we managed to ensure that 60.9% of our procurement volume was socially responsible (2013: 59.2%) by entering into Socially Responsible Procurement (SRP) agreements with suppliers. The relevant SRP statements document the sustainable supply chain criteria and supplementary agreements covering such things as reduction of CO_2 emissions, use of sustainable materials and job creation.

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

Impact of our supply chain agreements on employment

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

- Our procurement policy has led to the preservation and creation of jobs. We make a distinction between helping people who have difficulty entering the labour market to obtain initial qualifications and investing in sheltered employment. In 2014, 28 people who had been excluded from the labour market were taken on by our suppliers. Our analysis shows that gaining initial qualifications is genuinely successful. Suppliers are also investing in sheltered employment and, in this way, together providing work for more than 70 employees;
- With respect to labour market participation we have been responding to the desire among our suppliers for joint input to the further evolution of our procurement policy. Suppliers point out that helping people into employment is not always possible because of the specialist or hazardous nature of the work. It is also essential that the impact of the Participation Act (aimed at increased inclusion and

participation of people with disabilities in the labour market) should be jointly discussed. Alliander has accordingly set up a working group for this purpose;
- Apart from labour market participation, our suppliers' SRP statements contain specific agreements regarding reduction of CO_2 emissions. Numerous activities are reported by the suppliers we have looked at, but the effect they are having on actual emissions is not so great. This needs improving.

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

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

Events after the balance sheet date

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

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

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

Outlook for 2015

Investment

Gross capital expenditure, chiefly on network replacement and expansion projects but also on investments relating to the energy transition, will together amount to around €550 million in 2015. The extent to which there is growth in decentralised power generation and feed-in is one of the factors affecting the level of our long-term investment plans. Capital projects are also planned in 2015 for activities in growth markets and for renovation of the buildings in Duiven and Arnhem. These investments are budgeted at almost €100 million.

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

Financing

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

Results

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

Financial and sustainable value for our stakeholders

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

Financial value for Alliander stakeholders

Suppliers
Suppliers make a substantial contribution to our sustainability objectives. The company spent €322 million on procurement in 2014 (excluding the cost of network losses).

Customers
Customers use our services every day. The €1.7 billion we earn in revenue is in consideration of our meeting customers' energy needs.

Employees
Our employees constitute our most important resource. Alliander paid employee benefits totalling €583 million in 2014.

Shareholders
Alliander paid €125 million in dividends in 2014.

alliander

Public authorities
Alliander paid €174 million in taxes in 2014 (€94 million in corporate income tax and €80 million in sufferance taxes).

Energy sector
We pay €84 million to energy suppliers for energy which is lost in transmission and distribution.

Investors
Alliander aims to be a sound and socially responsible investment. In 2014, Alliander paid €95 million in interest to investors.

Contribution to society
Alliander does a great deal in the way of activities with a social dimension that contribute to a more sustainable economy, e.g. by entering into partnerships. Alliander spends €1 million a year on social initiatives.

Creation of sustainable value

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

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

Consolidated financial statements

Consolidated balance sheet

€ million	Note	2014		2013	
Assets					
Non-current assets					
Property, plant and equipment	3	6.218		6.012	
Intangible assets	4	322		323	
Investments in associates and joint ventures	5	11		32	
Available-for-sale financial assets	6	200		297	
Other financial assets	7	43		25	
Deferred tax assets	17	218		244	
			7.012		**6.933**
Current assets					
Inventories	9	40		37	
Trade and other receivables	10	258		282	
Derivatives	8	2		19	
Other financial assets	6, 7	184		100	
Cash and cash equivalents	11	167		155	
			651		**593**
Non-current assets held for sale	33		**9**		**22**
Total assets			**7.672**		**7.548**
Equity & liabilities					
Equity	12				
Share capital		684		684	
Share premium		671		671	
Subordinated perpetual bond		496		496	
Hedge reserve		-		-	
Revaluation reserve		42		24	
Other reserves		1.363		1.212	
Profit after tax		323		288	
Total equity			**3.579**		**3.375**
Liabilities					
Non-current liabilities					
Interest-bearing debt	13	1.616		1.611	
Derivatives	8	-		6	
Finance lease liabilities	19	145		127	
Deferred income	14	1.573		1.555	
Provisions for employee benefits	15	49		53	
Other provisions	16	1		124	
			3.384		**3.476**
Short-term liabilities					
Trade and other payables	18	103		76	
Tax liabilities		106		85	
Interest-bearing debt	13	159		284	
Derivatives	8	80		-	
Provisions for employee benefits	15	67		65	
Accruals		194		187	
			709		**697**
Total liabilities			**4.093**		**4.173**
Total equity and liabilities			**7.672**		**7.548**

Consolidated income statement

€ million	Note	2014		2013	
Revenue	21	**1.696**		**1.744**	
Other Income	22	141		102	
Total income			**1.837**		**1.846**
Operating expenses					
Purchase costs and costs of subcontracted work	23	-406		-416	
Employee benefit expenses	24	-465		-453	
External personnel expenses	24	-118		-107	
Other operating expenses	25	-159		-247	
Total purchase costs, costs of subcontracted work and operating expenses		**-1.148**		**-1.223**	
Depreciation and impairment of property, plant and equipment	26	-354		-357	
Less: Own work capitalised		175		191	
Total operating expenses			**-1.327**		**-1.389**
Operating profit (EBIT)			**510**		**457**
Finance income	27		50		43
Finance expense	28		-143		-112
Result from associates and joint ventures after tax	5		-		2
Profit before tax			**417**		**390**
Tax	29		-94		-102
Profit after tax			**323**		**288**

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

Consolidated statement of comprehensive income

The comprehensive income was as follows:

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

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

Consolidated cash flow statement

€ million	Note	2014		2013	
Cash flow from operating activities	30				
Profit after tax			**323**		**288**
Adjustments for:					
- Finance income and expense	27, 28		93		69
- Tax	29		94		102
- Profit after tax from associates and joint ventures	5		-		-2
- Depreciation and impairment less amortisation	22, 26		291		296
- Release provision CDS after tax	8		-60		-
- Result divestiture shares KEMA after tax[1]	22		-45		-
Changes in working capital:					
- Inventories		-3		-1	
- Trade and other receivables		24		40	
- Trade and other payables and accruals		57		-35	
Total changes in working capital			78		4
Changes in deferred tax, provisions, derivatives and other			-38		-10
Cash flow from operations			**736**		**747**
Net interest paid		-77		-77	
Net interest received		2		5	
Corporate income tax paid (received)		-38		8	
Total			**-113**		**-64**
Cash flow from operating activities			**623**		**683**
Cash flow from investing activities	30				
Investments in intangible assets	4	-2		-5	
Investments in property, plant and equipment	3	-570		-570	
Construction contributions received	14	80		82	
Investments and divestments in financial assets (associates and joint ventures)		82		-	
Cash flow from investing activities			**-410**		**-493**
Cash flow from financing activities	30				
Redemption EMTN		-276		-	
ECP financing issued		153		-	
Long-term debt issued (redemption)		-5		-6	
(Redemption) loans granted		-7		21	
Received (granted) current deposits		75		-25	
Redemption subordinated perpetual bond	12	-		-494	
Subordinated perpetual bond issued	12	-		496	
Reimbursement subordinated perpetual bond		-16		-53	
Dividend paid		-125		-74	
Cash flow from financing activities			**-201**		**-135**
Net cash flow			**12**		**55**
Cash and cash equivalents as at 1 January			155		100
Net cash flow			12		55
Cash and cash equivalents as at 31 December			**167**		**155**

1. The amount received in connection with the sale of the KEMA shares was €80 million and has been accounted for in the disposals of financial assets included in the cash flow from investing activities.

Consolidated statement of changes in equity

	Equity attributable to shareholders and other providers of equity							
€ million	Share capital	Share premium	Subordinated perpetual bond	Hedge reserve	Revaluation reserve	Other reserves	Profit for the year	Total
As at 1 January 2013	**684**	**671**	**494**	**-2**	**28**	**1.104**	**224**	**3.203**
Movement in fair value cash flow hedges	-	-	-	2	-	-	-	2
Revaluation of available-for-sale financial assets	-	-	-	-	-4	-	-	-4
Profit after tax for 2013	-	-	-	-	-	-	288	288
Comprehensive income for 2013	**-**	**-**	**-**	**2**	**-4**	**-**	**288**	**286**
Reimbursement subordinated perpetual bond after tax	-	-	-	-	-	-42	-	-42
Redemption subordinated perpetual bond after tax	-	-	-494	-	-	-	-	-494
Issued subordinated perpetual bond after tax	-	-	496	-	-	-	-	496
Dividend for 2012	-	-	-	-	-	-	-74	-74
Profit appropriation for 2012	-	-	-	-	-	150	-150	-
As at 31 December 2013	**684**	**671**	**496**	**-**	**24**	**1.212**	**288**	**3.375**
Movement in fair value cash flow hedges	-	-	-	-	-	-	-	-
Revaluation of available-for-sale financial assets	-	-	-	-	18	-	-	18
Profit after tax for 2014	-	-	-	-	-	-	323	323
Comprehensive income for 2014	**-**	**-**	**-**	**-**	**18**	**-**	**323**	**341**
Reimbursement subordinated perpetual bond after tax	-	-	-	-	-	-12	-	-12
Dividend for 2013	-	-	-	-	-	-	-125	-125
Profit appropriation for 2013	-	-	-	-	-	163	-163	-
As at 31 December 2014	**684**	**671**	**496**	**-**	**42**	**1.363**	**323**	**3.579**

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