

Alliander N.V. Half-Year Report 2015

29 July 2015



allliander

Disclaimer

This report is a translation of the Dutch half-year report 2015 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 2015 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., Endinet Groep B.V., Liandon B.V. and Alliander AG among other entities. Liander refers to network operator Liander N.V. and its subsidiaries. The name Endinet refers to the Endinet group, including network operator Endinet B.V. In this report Stam refers to Stam Heerhugowaard Holding B.V. and its subsidiaries and 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 2014 financial statements of Alliander N.V., which can be found on www.alliander.com.

This report has not been audited.

Contents

Profile	4
Objectives & results	5
Financial key figures	6
Report of the Management Board	7
Summary of significant events	7
Condensed consolidated half-year financial statements 2015	20
Consolidated income statement	20
Consolidated statement of comprehensive income	20
Consolidated balance sheet	21
Consolidated cash flow statement	22
Reconciliation of net cash flow in 2015	23
Consolidated statement of changes in equity	24
Notes to the consolidated half-year figures	25
Auditors' review report	33
Appendix	34

Profile

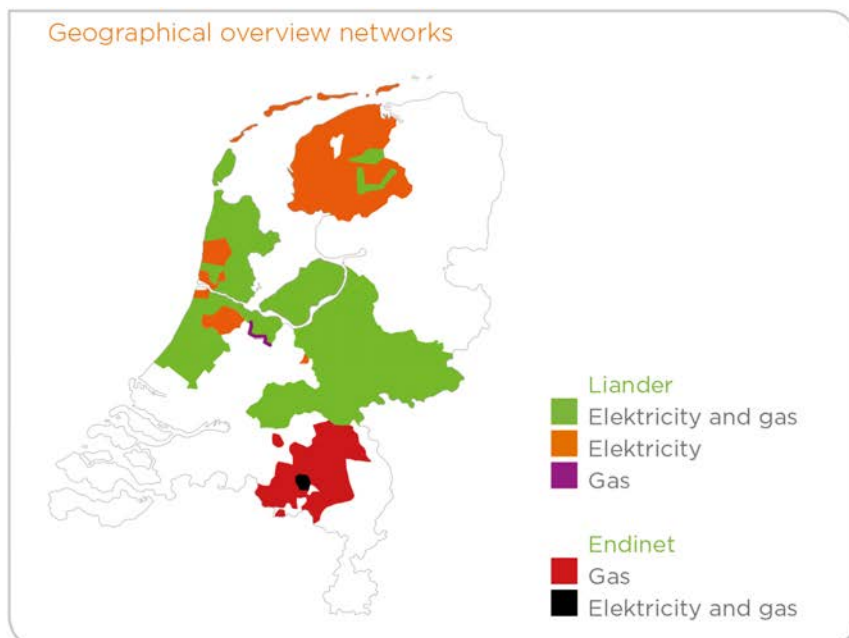
Alliander is an energy network company distributing energy on a daily basis to 3.3 million customers. The network operator develops, maintains and manages gas and electricity distribution systems covering over one-third of the Netherlands. Alliander enables the switching of energy supplier by its customers and also energy feed-in to the grid, as well as helping them to switch to renewable forms of energy. This business is carried on by the network operators Liander and Endinet and other entities. Complementing these activities, Liandon provides services relating to the construction and maintenance of complex energy distribution systems. Other subsidiaries are active in the energy transition field. Alliander employs around 7,000 people.

The major shareholders are the Dutch provinces of Gelderland, Friesland and Noord-Holland and the City of Amsterdam. The province of Flevoland and various municipalities in the provinces of Flevoland, Gelderland, Noord-Holland and Zuid-Holland are also shareholders.

Alliander aims to fulfil its public responsibilities in an affordable, reliable and accessible manner and seeks to achieve balanced growth for all stakeholders: customers, employees, shareholders and lenders, the environment and society at large. The company is playing an important role in facilitating moves towards greater sustainability in Dutch energy supplies. The increase in sustainable, more decentralised power generation makes demands on the energy infrastructure and represents a challenge for network companies. Alliander sees it as its responsibility, together with other market participants, to facilitate this greater sustainability at an acceptable cost to society.

Alliander wants to see an energy supply system that gives everyone access to reliable, affordable and sustainably produced energy on equal terms. It is this that Alliander is working towards each and every day.

Organisation structure



Objectives & results

Objectives & results




Safety

Objectives	Results 30 June 2015	Objectives ultimo 2015	Results 31 December 2014
LTIF (lost time injury frequency) ¹	 1.7	LTIF is 2.2 or lower.	1.5

Customers



Objectives	Results 30 June 2015	Objectives ultimo 2015	Results 31 December 2014
Customer satisfaction ²	Consumer market  98 % against benchmark	Outperform benchmark	Consumer market 104 % against benchmark
	Business market  100 % against benchmark	Outperform benchmark	Business market 97 % against benchmark
Electricity outage duration (in minutes) ³	 19.5 minutes	Maximum of 22	19.9 minutes
Postcode areas with more than five interruptions per year ¹	 11	Maximum of 17	10
Progress of 25 most important projects ⁴	n/a	At least 90%	78 %

Employees

objectives	Results 30 June 2015	Objectives ultimo 2015	Results 31 December 2014
Employee survey score ⁵	n/a	At least 75	67
Employee absenteeism ¹	 4.0 %	Maximum 3.9%.	3.8 %
Women in leadership positions	 25.1 %	At least 23%.	23.7 %
People at a distance from the labour market ⁶	 59	At least 100.	93

- The figure is a 12-month moving average.
- Customer satisfaction is a measure of the relative satisfaction rating for customers in both the consumer and business markets, calculated by an external agency several times a year using random surveys.
- 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 KPI is related to completed projects. It is a target for a whole year that is assessed at the end of the calendar year.
- The score is measured once a year and will be available in the second half of 2015.
- Alliander supports people whose personal circumstances make it more difficult for them to find work. The 2015 figure concerns six months; the 2014 figure concerns 12 months.

Shareholders and investors

Objectives	Results 30 June 2015	Objectives ultimo 2015	Results 31 December 2014
Retention of solid rating	S&P: AA-/A-1+/stable outlook Moody's: Aa3/P-1/stable outlook	Maintain solid A rating profile	S&P: AA-/A-1+/stable outlook Moody's: Aa3/P-1/stable outlook
Financial policy¹			
FFO/net debt	29%	> 20%	34%
Interest cover	7.9	> 3.5	7.6
Net debt / (net debt + equity)	35%	< 60%	34%
Solvency	55%	> 30%	54%
Sustainability			
Socially responsible procurement ²	 47.0%	At least 60%	57.4%
CO ₂ emissions from business operations ³	 393 kton	Maximum 772kton	831 kton

- The financial framework within which Alliander operates is based on the four ratios presented in the key figures. 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 In calculating the ratios, no account is taken of the 'held for sale' classification (IFRS 5) in the case of Endinet Groep. 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.
- The SRP (socially responsible procurement) percentage shows the proportion of Liander's expenditure which meets the SRP criteria. Compared with year-end 2014, the method of calculating this KPI has been tightened up. With the current method of calculation, an SRP statement is valid for a maximum of two years. For comparison purposes, the year-end 2014 score has been restated according to the new method of calculation.
- Calculated according to the new method used in the industry. This method differs from the method used at year-end 2014. For comparison purposes, the year-end 2014 score has been restated according to the new method of calculation.

Financial key figures

€ million, unless stated otherwise	2015	1 st half ¹	
		2015	2014 ¹
Revenue	777	786	786
Other income	45	83	83
Operating expenses	593	650	650
Operating profit	229	219	219
Profit after tax	161	156	156
Profit after tax excluding incidental items and fair value movements	116	114	114
Investments in property, plant and equipment	261	273	273
Cash flow from operating activities	241	219	219
	30 June 2015	31 December 2014	
Total assets	7,679	7,672	7,672
Total equity	3,614	3,579	3,579
Net debt ²	1,751	1,617	1,617
ROIC ³	5.7%	6.3%	6.3%

- For comparison purposes, the figures have been restated to reflect the classification of Endinet Groep as 'held for sale' (IFRS 5).
- Net debt is defined as interest-bearing debt less cash and cash equivalents and investments that are not restricted.
- 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

Summary of significant events

Investments, maintenance and innovation in the networks

Securing the quality, safety and capacity of the electricity and gas distribution networks, both now and for the future, is a fundamental responsibility of our network operators. Investment in maintenance and replacement of the energy networks is essential, both to preserve the existing quality and safety standards and to distribute the growing renewable energy streams. Capital expenditure in the first half of 2015 was €213 million (2014: €238 million). The lower figure is mainly due to a reduced volume of customer-driven activities. Of this figure, €82 million related to replacement investment and €92 million was invested in network expansion. Repair and maintenance costs were up by €10 million compared with 2014. In the first half of 2015, an additional 115,000 smart meters were installed – 25,000 more than in the first half of 2014. The widescale roll-out of smart meters area by area has begun in 2015.

Network investment and maintenance

€ million	Realised until June 2015	Realised until June 2014	Target at year-end 2015	Realised 2014
Electricity				
Expansion	75	86	199	163
Replacement	35	44	88	80
Gas				
Expansion	17	21	37	41
Replacement	47	48	124	102
Metering devices	26	23	76	50
Other network	12	16	35	53
Total investments	213	238	559	488
Maintenance costs	121	111	203	238
Total maintenance costs and network investments	333	349	762	726
Number of smart meters installed	115,000	90,000	341,000	206,000

Heads of agreement on the exchange of regional energy networks between Enexis and Alliander

On 24 March, Alliander and Enexis signed a letter of intent to exchange regional energy networks. The agreement lays down the preconditions and terms of the exchange, including the precise boundaries of the networks and scope of activities to be exchanged as well as important agreements on the next steps. At an Extraordinary General Meeting of Shareholders held on 1 July 2015, Alliander's shareholders gave their agreement to the exchange. And on 18 June, the Enexis shareholder committee determined that the exchange of regional networks fitted in with the strategic plan for Enexis. The sale and purchase agreement was signed by the two parties on 27 July 2015. The exchange of the regional energy networks will take effect as from 1 January 2016. For the financial figures as at 30 June 2015, this means that, in accordance with classification as 'held for sale' (IFRS 5), the assets and liabilities of Endinet Groep B.V. are classified in the balance sheet as assets and liabilities held for sale. Only Endinet's net profit appears in the income statement, as results after tax from discontinued operations. Additionally, in accordance with 'held for sale' classification (IFRS 5), amortisation/depreciation charges relating to Endinet Groep assets ceased to be recognised in Alliander's consolidated accounts with effect from 24 March 2015.

Credit default swap termination

Alliander's assets have included a credit default swap (CDS) derivative instrument in connection with two cross-border lease contracts since 2005. The CDS is a product which insures the credit risk on an underlying portfolio made up of almost 100 reference bonds. The CDS had a 10-year maturity (expiring 22 June 2015). The CDS was terminated on 23 June as per contract. With effect from that date there are also no remaining risks relating to this derivative. The carrying amount of the CDS, which was €66 million as at 23 June 2015, has been released to income for the first half of 2015, set against the operating expenses.

Velsen-Noord gas supply failure

On 15 January, a water main was struck during a drilling operation, resulting in a large volume of water entering the gas mains. Gas pipes extending to 6 km in length were polluted. Around a thousand homes were without gas for several days as a consequence.

Supervisory Board changes

Mr F.W. Briët resigned as member of the Supervisory Board on health grounds at 1 January 2015. Mr Briët has been a member of the Supervisory Board since 30 June 2009. To succeed Mr Briët, Mr B. Roetert was appointed to the Supervisory Board on 20 February 2015. The succession procedure for Supervisory Board member Ms J.W.E. Spies, who resigned on 14 December 2014, is still ongoing.

Nijmegen district heating system

The Nijmegen district heating system commenced operation on 9 March. The district heating system gives Nijmegen an exceptionally eco-friendly energy supply for the new developments in the Waalfront and Waalsprong districts. In due course, heat produced by waste-to-energy plant ARN, will heat 14,000 homes and businesses. Expansion of the system in the existing urban area and wider region is simple. It is also suitable for connecting new sources of heat as well as new users to the system.

Termination of ENW cross-border leases

On 2 January, the sub-transaction entered into in 1998 by what was then ENW in connection with the gas distribution system in Amsterdam was terminated on the cancellation option date provided for in the original contract. At the initiative of the investor concerned, the remaining three ENW sub-transactions (relating to the gas distribution systems of Kennemerland, Kop Noord-Holland and Midden Noord-Holland) were subsequently terminated ahead of time, on 14 April. An accelerated payment was also made on that date to settle the outstanding amounts owed in connection with the sub-transaction already terminated on 2 January. The termination of these contracts in 2015 means that the gas distribution systems in Noord-Holland originally operated by ENW once again constitute totally unencumbered assets for Liander.

Liander escapes multi-million fine

The Dutch Trade and Industry Appeals Tribunal (CBB) has ruled that the regulator, the Authority for Consumers & Markets (ACM), incorrectly imposed in the past a fine of €3.3 million on Liander. The ACM had accused Liander of failing to protect customer details. According to the CBB, there was not the slightest evidence of dereliction of the duty to treat such information in strictest confidence. The amount of €3.3 million was refunded by the ACM in 2015 and has been recognised as income.

Berlin embraces Dutch charge point expertise

Allego (a subsidiary of Alliander engaged in the construction and management of charging infrastructure for electric vehicles), The New Motion (supplier of charging solutions for electric vehicles) and Alliander AG (manager of Berlin's traffic systems) are to install 220 electric vehicle charging points in Berlin, with a contract to manage the charging infrastructure up to the end of June 2020.

Vitens and Liander to embark on water and gas main replacement programme in Apeldoorn

On 20 May, Vitens and Liander announced plans to replace around 46 km of water and gas mains in Apeldoorn over the next two years. By simultaneously replacing both the water and gas mains, the effects for the customers will be limited as much as possible. The activities will start after the summer, and last to 2017.

Launch of area-by-area smart meter installation offer

A programme to install smart meters area by area was launched in Nijmegen on 26 May under which Alliander customers are being given the opportunity of having a smart meter fitted one district or postcode area at a time. This is a pilot scheme. Similar pilot schemes are being conducted in Huizen and Putten. The purpose of these pilot schemes is to gain experience on a small scale and to improve cooperation where necessary. On conclusion of the pilot schemes, the main contractors will be going ahead with making thousands of smart meters available on a wide scale. The aim of the latter project is to have offered all small-consumer customers the opportunity of having a smart meter by 2020. Achieving widespread penetration will involve installing around 3,800 meters a day at the peak of the exercise.

Alliander behind Global Smart City & Community Coalition

At the Global Smart City Teams Challenge, in Washington, on 4 June, Alliander took the initiative to launch the Global Smart City & Community Coalition. The aim of the coalition is to pool resources relating to the development of 'smart cities' at international level. The coalition has adopted a 'plug and play' approach. The coalition partners are developing urban solutions that will be applicable worldwide, are scalable and are sustainable. Best practices and proven designs will form the basis and these will be strengthened, using the knowledge, experience and solutions of other coalition members.

Alliander and Stedin smart telecommunication network operational

At the end of June, Alliander and Stedin put into service a private wireless communication network operated by the joint venture CDMA Utility B.V., affording the potential to provide our customers with even greater security of supply. Apart from the communication with smart meters, the new wireless communication network will form the basis for the wider introduction of 'intelligent' systems in our energy network.

Safety

Lost Time Injury Frequency

This safety standard is used to measure the effectiveness of the safe working practices at Alliander. The LTIF score is the 12-month moving average of the number of accidents resulting in time off work related to the total number of hours worked. Alliander's LTIF score over the last 12 months is 1.7 and therefore below the target of 2.2.

The safety of our customers, employees and contractors is our top priority. We ensure that our installations and networks are safe and that everyone gets home safely. We work hard every day to ensure that our safety ambition is realised, by actively engaging in safety issues and doing everything possible to prevent accidents.

In the first half of 2015 there were 14 accidents involving our employees resulting in time off work (in the first half of 2014 there were 12). We believe it is important to learn from hazardous situations and incidents if we are to reduce the risk of accidents. We therefore subject safety incidents to very thorough scrutiny and make sure that the wider organisation benefits from any lessons learnt. With a view to improving its safety record, Alliander launched a new approach to safety in 2014. This new approach provides day-to-day practical guidance for taking the necessary steps for measuring our safety performance and achieving ongoing improvements. Part of the new approach involves improvement projects, safety campaigns and a management-led focus on safety. This approach to safety will be spread more widely within the organisation in 2016.

Customers

Customer satisfaction

Customer satisfaction in the consumer market and business market (including municipal authorities) is measured by the customer satisfaction survey carried out by external consultants. The score obtained is compared with the benchmark derived from Enexis and Stedin scores. The consumer market customer satisfaction score for Liander relative to the benchmark is 98% (2014: 104%). Liander's specific score is 93% compared with a benchmark score of 95%. The business market customer satisfaction score for Liander relative to the benchmark is 100% (2014: 97%). Liander's specific score is 87%, which is the same as the benchmark score.

Outage duration

An uninterrupted power supply is very important in our society. Our staff work constantly to ensure a reliable and safe network. 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 power outage duration was down compared with both the first half of 2014 and the figure reported at year-end 2014. In the period up to the end of June 2015 (12-month moving average), the outage duration works out at 19.5 minutes (first half 2014: 24.1 minutes and for the second half of 2014: 19.9 minutes). The substantial drop compared with the first half of 2014 is mainly accounted for by a relatively high outage duration figure in the second half of 2013 which has now fallen out of the moving average calculation. In the first six months of 2015, the outage duration was 9.6 minutes (2014: 9.6 minutes).

Postcode areas with more than five interruptions

The number of postcode areas with more than five supply failures (repeat failures) in the previous 12-month period is 11. The figure for the whole of 2014 was 10.

Energy transition

Alliander is investing in the smart grid in preparation for growth in the feed-in of locally generated power and supports sustainable energy initiatives by both residential and business customers. The number of customers with electricity feed-in arrangements increased by 21% in the first half of 2014, rising to over 88,000 (year-end 2014: 73,000).

The numbers of installations (wind farms and single wind turbines) generating wind power as at mid-2015 were 698 installations from large-scale users and 43 installations from small-scale users (year-end 2014: 712 large-scale and 30 small-scale).

Employees

Workforce

Compared with year-end 2014, the total number of permanent and contract full-time equivalent staff as at 30 June 2015 was 43 higher, at 6,891 FTEs, the net effect of a decrease of 4 FTEs in permanent staff and an increase of 47 FTEs in external staff.

Women in managerial positions

Alliander makes every effort to reflect social change and encourages women to progress to managerial positions. The proportion of managerial positions occupied by women as at 30 June 2015 was 25.1%, compared with 23.7% as at year-end 2014.

Sickness absence

Sickness absence in the first half of 2015 ran at 4.0%, which is slightly up compared with 2014 (3.8%). The figure is a 12-month moving average.

Committed distribution system operator

Alliander believes it is important for everyone to have the opportunity to work, but understands that it is difficult for people in some groups in society to find a job. In the Step2Work project, Alliander offers participants a recognised training programme (including skill qualifications) and relevant work experience. In the first half of 2015, 59 new recruits joined the Step2Work project (compared with 93 new recruits for the whole of 2014). The target for 2015 as a whole is 100 participants.

Shareholders and investors

Credit ratings

There has been no change in Alliander's long-term and short-term credit ratings and outlook compared with year-end 2014.

Financial policy ratios

As at 30 June 2015, all ratios comfortably satisfied the standards set.

Sustainability

Socially responsible procurement

Working with suppliers, Alliander aims to make the energy supply chain more sustainable. To this end we are concluding socially responsible procurement (SRP) declarations with our suppliers, defining the generic and specific sustainability standards we seek to achieve in our relationship with them. SRP-accredited suppliers accounted for 47% (year-end 2014: 57%) of our purchases in the first half of 2015.

CO₂ emissions from business operations

The CO₂ emissions connected with Alliander's own operations in the first half of 2015 amounted to 393kt, compared with 831kt for the whole of 2014. The target for 2015 is to limit emissions to 772kt.

Sustainability initiatives

Alliander is facilitating the transition to a sustainable energy system for its customers. Various initiatives were launched in the first half of 2015 with this aim in view, including:

Duurzame Energienetwerken Gelderland

In the first half of 2015, in partnership with PPM Oost (acting as fund manager on behalf of Innovation and Energy fund for Gelderland, IEG B.V.), Alliander Duurzame Gebied Ontwikkeling (Alliander Sustainable Area Development – Alliander DGO) set up a new fund Duurzame Energienetwerken Gelderland B.V. (Sustainable Energy Networks Gelderland – DENG) taking the legal form of a private limited company that invests in projects contributing to the energy transition in the Province of Gelderland. In this Alliander DGO functions as development company.

DENG is a significant strategic activity for the future for sustainability projects in the Province of Gelderland. The principal objective of the company is to undertake and operate sustainability projects relating to the energy infrastructure. The idea is that projects after development by Alliander DGO will be submitted to DENG for construction and operation. The fund will initially amount to €30 million, with both Alliander DGO and IEG each contributing half that amount. Alliander is making use of its usual efficiency requirements.

Alliander exploring the possibilities of DC network

In the vicinity of Lelystad Airport, Alliander in partnership with developers is exploring the possibilities for an innovative direct current distribution system (DC network). Solar and wind power generating facilities are planned for the area, together with electric vehicle charging infrastructure, battery storage and LED street lighting. A DC network would allow the developers to realise these ambitions for a sustainable energy economy by making savings in terms of costs, energy consumption and materials. Direct current has the potential to form an important link in sustainable energy systems at a local level. There are still barriers, however, in that DC systems are relatively new and the necessary legislation is not yet in place. Alliander is working to find solutions to these issues as part of Netbeheer Nederland and in conjunction with the Dutch Ministry of Economic Affairs and Authority for Consumers & Markets (ACM).

Reduction in fossil fuel and groundwater use by Eerbeek paper industry

Substantial reductions are shortly set to be made in the use of fossil fuels and groundwater by the paper industry in Eerbeek. Industriewater Eerbeek (IWE) and Alliander DGO are building a system of biogas and process water pipelines, enabling biogas released by the wastewater treatment process and the treated water to be used directly by the DS Smith paper mill. This will save around 700,000 m³ of water a year and reduce the CO₂ emissions by about 5,000 t/a.

Alliander HQ to be modernised and made more energy-efficient

Alliander plans to renovate its 'Bellevue' head office in Arnhem, improving the building's sustainability credentials at the same time. The design stage was completed in the first half of the year of 2015. The alteration work is due to start at the end of 2015 and will be completed by early 2017. After the work, the office will meet much of its own energy requirements. This will be achieved by using solar panels, having a ground-source heat pump system for heating and pumping heat extracted by the air-conditioning system back into the ground. Sustainable materials will also be used for the alterations and smart control systems will be used for things like lighting and air-conditioning.

Duiven site

On Monday, 31 August, some 1,500 staff will move into the renovated premises in Duiven. The site is being reoccupied after almost 2 years of renovation and expansion work and will be the centralization strategy for the employees in the Eastern part of the Netherlands be effectuated. Duiven is an exceptional site, which has been redeveloped using the existing buildings and reclaimed materials as far as possible. Moreover, the site will be energy-neutral.

Flexible street lighting switching piloted

In partnership with 14 municipal authorities, network operator Liander started a pilot scheme at the beginning of 2015 involving a new switching system for street lighting. The new system gives local authorities greater control, allowing them to save energy by more intelligent use of street lighting. Under the existing system, municipal street lighting in the area served by Liander is centrally controlled. The new service offered by Liander, going under the name of FlexOVL, enables local authorities to decide independently what time street lighting in a particular area is switched on and off.

Risk management

Risk management is integral to 'control and accountability'. Risks are inherent in any business. Identifying, assessing and managing risks helps the entire organisation to achieve its objectives properly, deal with uncertainties and act as it should. The main risks are discussed with the Management Board and the Supervisory Board on a quarterly basis. Further information on risk management can be found in the Strategy section of the 2014 annual report, which contains a summary of the principal risks together with their potential impact on the organisation in the medium term. In the present report we describe the more important developments surrounding the risks of greater relevance to our strategy, making a distinction between internal risks (connected with our own actions) and external risks (arising as a result of developments in our operational environment).

Internal risks

Alliander aims to prevent as far as possible any risks that might lead to incidents serious enough to affect essential parts of the networks, imperil the safety of staff or threaten the environment. Whenever incidents occur, therefore, procedures are revised and improved as necessary. We invest in emergency systems and our replacement policy is risk-based. We are also working to introduce system-supported information management in the event of emergencies, so that information becomes available, can be validated and can be shared much quicker.

The 'improvement and clean-up plan' data quality programme is being continued in 2015. The quality of our data is important to providing a reliable service and controlling the costs of our operations. The purpose of data improvement is to ensure that we have complete and accurate information so that we are able to rely on the data we use in our operations. One part of the programme, concerned with assuring the completeness of our data on cables and pipes, has been concluded. We can now report that the critical static asset data – the information describing specific physical assets, such as location, type and date of construction – is under control. Another part of the programme, providing assurance of the completeness of data concerning cables and pipes and the asset register, has been completed with respect to asset data relating to gas governor stations, low-voltage substations and service connections. In addition, the scope of the necessary data revision exercise with regard to dynamic data – the condition and load data relating to an asset, such as faults, switching status and maintenance data – has been analysed.

The energy transition process, which is difficult to predict, remains a challenge. It is one of Alliander's social duties to facilitate the energy transition in an effective and efficient manner in conjunction with and for the benefit of all our stakeholders. This involves making careful choices in anticipation of the impact which the energy transition will have in order to maintain security of supply, gain any potential benefits and avoid having divestments in the network. Our 'Digital Network Management' programme was launched in 2014, with the aim of identifying the impact which the energy transition will have and making the best possible use of the opportunities afforded by digitalisation as regards network operations.

A new risk concerns the practicalities of scaling up meter replacement volumes. The basis of our original planning has changed, partly as a consequence of the guideline issued by the Dutch Ministry of Economic Affairs requiring smart meters to be available 'universally'. This means bringing forward and accelerating the programme giving customers the option of having a smart meter, which in turn means increasing the annual rate of production to a level considerably higher than initially envisaged. Measures such as flexibility with respect to work, capacity and contracts coupled with an overall feasibility study are aimed at being able to continue guaranteeing quality and safety during the accelerated rollout.

External risks

Changes in regulations at European level and changes due to market developments and technological developments mean that the regulatory framework in the Netherlands has undergone substantial revision over the years and further significant change is expected. Changes can have a substantial impact on the organisation and financial results of companies in the energy sector. The most important development at the moment with a potential impact in the medium to long term is the bill presently before the Dutch Parliament – referred to as the STROOM bill. Quite what impact this will have will depend on the form finally taken by the proposals. The bill will be debated by the Lower House of the Dutch Parliament after the summer.

The growing complexity of spatial planning is increasingly leading to additional project execution costs. Our risk management activities focus on addressing expected planning issues, proactively as far as possible, by keeping track of developments and engaging with stakeholders at an early stage with the object of agreeing mutually satisfactory solutions.

To combat cybercrime as far as possible we have an integrated security management system to monitor risks and to test our security systems at regular intervals, with an extra focus on detection and rapid response. Of current interest is also the fact that the Upper House of the Dutch Parliament passed a bill in May which will make it mandatory to report data leaks. Alliander supports this legal requirement; active communication and openness regarding data leaks are in the interests of our customers.

Another factor is that the costs associated with sufferance taxes – the taxes levied by municipal authorities for the use of public land by Alliander – continue to rise. This remains a risk with respect to our working capital position and our profitability, since sufferance tax increases are only partially reflected in increases in the regulated tariffs.

Alliander is exposed to credit risks relating to transaction counterparties, customer accounts and supplier accounts. Under the current credit management policy, credit risks are managed proactively, using established credit analysis and credit management techniques. There were no material credit-related losses in the first half of 2015.

Financial performance

General

The profit after tax for the first half of 2015 was up by €5 million compared with the corresponding period in 2014 and came in at €161 million. Profit after tax from continuing operations has remained stable. The decline in revenue due to lower regulated tariffs was compensated by lower interest expense. The profit from discontinued operations was higher than in the first half of 2014 because amortisation and depreciation charges were no longer recognised on the assets concerned.

The net debt position increased by €134 million to €1,751 million, mainly as a result of paying the dividend for 2014 in April 2015, amounting to €125 million. The solvency ratio as at the end of the first half of 2015 showed an improvement of approximately one percentage point to 55%.

Income statement

Operating income

The operating income for the first half of 2015 was down by €47 million compared with the first half of 2014, at €822 million. This decline is largely accounted for by the incidental profit on the sale of KEMA shares the year before (€40 million) coupled with lower regulated revenue (€8 million) due to lower regulated tariffs.

Operating expenses

Total operating expenses in the first half of 2015 came in at €593 million (first half 2014: €650 million).

The total operating expenses includes an important gain as a result of the contractual termination of a financial instrument related to two cross border lease agreements. Adjusted for this incidental gain there is an increase of €9 million compared with the first half of 2014, mainly due to:

- an increase of €9 million in sufferance tax charges owing to an increase in the number of demands for payment of sufferance tax on the part of municipal authorities;
- increased staff costs (for both permanent staff and contract staff) totalling €5 million, mainly as a result of an increase in the number of FTEs coupled with CLA pay rise;
- an increase in capitalised production (€7 million) due to a greater number of hours worked on capitalised projects.

A different approach to the analysis and control of cost trends, instead of looking at it on the basis of cost categories reflecting the format of the income statement, involves analysis from a management perspective. Seen from this angle, the following cost components can be identified:

- purchase costs, including the cost of grid losses, costs passed on by TenneT and sufferance taxes;
- process costs, particularly network maintenance costs and the costs of billing and payment collection;
- indirect costs, comprising the overhead and general administrative expenses;
- depreciation and amortisation charges.

The analysis from a management perspective does not take account of the 'held for sale' classification (IFRS 5) with respect to Endinet.

This produces the following analysis of operating expenses, excluding incidentals but including Endinet:

Analysis of operating expenses, excluding incidental items

€ million	2015	1 st half	2014
Purchase costs		210	208
Process costs		174	158
Indirect costs		132	147
Depreciation		178	176
Total		694	689

The purchase costs were higher, mainly owing to increased costs for sufferance taxes (€9 million – because of an increase in the number of municipal authorities charging this tax) and higher costs from TenneT (€9 million – owing to increased volumes and higher tariffs) whereas there were reductions in the costs of network losses (€8 million – due to gains from charging for losses in respect of prior years) and costs of the non-regulated activities (€8 million – due to a lower level of activities). Process costs were also up, partly because of increased costs for repairs and maintenance (€10 million) and a great number of hours charged to general services and service processes, costs of abandoned projects and non-capitalised costs. The indirect costs were down compared with the corresponding period last year by €15 million, mainly owing to lower costs for improvement programmes.

Finance income and expense

Finance income and expense in the first half of 2015 resulted in a net expense of €34 million (first half 2014: €40 million). The reduction was mainly due to cheaper financing.

Share in results from associates and joint ventures

The share in the results of associates and joint ventures for the first half of 2015 was a loss of €1 million (first half 2014: nil).

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 24.7% in the first half of 2015 (first half 2014: 17.9%). The difference between the effective tax burden and the standard rate of tax (25%) in the preceding year is mainly accounted for by the substantial-holding privilege connected with the disposal of the non-controlling interest in KEMA.

Incidental items and fair value movements

Alliander's results can be affected by incidental items and fair value movements, 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	Reported		1 st half		Excluding incidental items and fair value movements	
	2015	2014	2015	2014	2015	2014
Revenue	777	786	-	-	777	786
Other income	45	83	-	40	45	43
Total purchase costs, costs of subcontracted work and operating expenses	-518	-572	64	-2	-582	-570
Depreciation and impairments	-159	-156	-	-	-159	-156
Own work capitalised	84	78	-	-	84	78
Operating profit (EBIT)	229	219	64	38	165	181
Finance income/(expense)	-34	-40	-5	-1	-29	-39
Result from associates and joint ventures	-1	-	-	-	-1	-
Profit before tax	194	179	59	37	135	142
Tax	-48	-33	-14	5	-34	-38
Profit after tax from continuing operations	146	146	45	42	101	104
Profit after tax from discontinued operations	15	10	-	-	15	10
Profit after tax	161	156	45	42	116	114

Notes to incidental items

The incidental gain, amounting to €64 million, in the total purchase costs, costs of subcontracted work and operating expenses derives from the €66 million gained on the termination of the CDS as per contract. This concerns a financial instrument related to two cross border lease agreements. The remaining incidental item (loss) in the total purchase costs, costs of subcontracted work and operating expenses in both the first half of 2015 (€2 million) and the first half of 2014 (€2 million) is connected with costs associated with organisational changes.

Of the incidental expense of €5 million in finance income and expense in the first half of 2015, €4 million is accounted for by losses on exchange relating to the CDS (this being a US dollar instrument). The remaining incidental expense of €1 million (first half 2014: €1 million expense) relates to exchange differences between the euro and the US dollar on the other assets related to the cross-border leases carried in the balance sheet. The tax effects on the incidental items and fair value movements are reflected in the tax line.

The incidental item under other income in 2014 was connected with the net book profit after tax of €45 million on the sale of the 25.4% interest in KEMA to DNV.

Segment information

The segments correspond to Alliander's internal reporting structure, which does not take account of the classification of Endinet as 'held for sale'. This means that Endinet is included in the Alliander consolidation, with amortisation/depreciation continuing. As a consequence, the segment information is not the same as the operating profit recognised in the income statement.

The operating profit of the segment represented by network operator Liander in the first half of 2015 amounted to €197 million, a decrease of €13 million compared with the first half of 2014, as a consequence of the decrease in regulated tariffs and the increase in sufferance tax charges among other factors. The network company Endinet segment reported an operating profit of €8 million in the first half of 2015, compared with €10 million for the corresponding period in 2014. The other segment (mainly comprising non-regulated activities, corporate staff departments and service units) posted an operating profit of €29 million negative (first half 2014: €27 million negative) owing to the costs of unoccupied premises and the start-up costs of new activities connected with sustainability, among other expenses.

Cash flows

Cash flow from operating activities

Cash flow from operating activities in the first half of 2015 was €241 million (2014: €219 million). The increase of €22 million is mainly accounted for by an increase in working capital, partially offset by the lower revenues and increased costs.

Cash flow from investing activities

The cash outflow from investing activities in the first half of 2015 amounted to €229 million (first half 2014: €154 million). This increase is mainly accounted for by the non-recurring inward cash flow of €80 million in 2014 from the sale of the KEMA shares. The investments in property, plant and equipment in the first half of 2015 amounted to €261 million (2014: €273 million).

Investment in property, plant and equipment

€ million	1 st half ¹	
	2015	2014
Electricity regulated	110	130
Gas regulated	68	69
Metering devices	26	23
Buildings, ICT etc.	57	51
Total	261	273

1. Including investments Endinet and in Germany.

The drop of €12 million is mainly accounted for by lower investments in the electricity networks.

Cash flow from financing activities

The cash flow from financing activities in the first half of 2015 amounts to an outflow of €20 million compared with an inflow of €30 million in the corresponding period in 2014.

Financing and credit rating

Financial policy

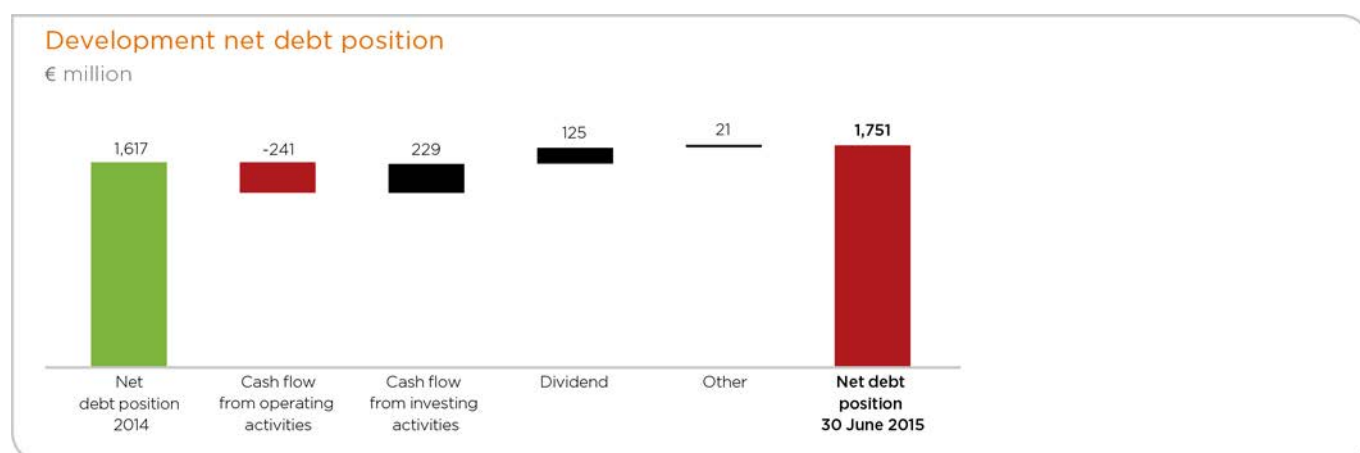
Alliander's financial policy is aimed at achieving a balance between protecting bond holders and other providers of borrowed capital and maintaining an adequate shareholders' return, while preserving the necessary flexibility to enable the company to grow and invest. The financial framework within which Alliander operates is based on the four ratios presented in the key figures. As at 30 June 2015, 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 2015 amounted to €1,503 million (31 December 2014: €1,369 million) and, based on Alliander's financial policy, €1,751 million (€31 December 2014: €1,617 million). The increase is mainly due to the payment in 2015 of dividend amounting to €125 million for 2014.

Reconciliation of net debt position



€ million	30 June 2015	31 December 2014
Long-term interest-bearing debt	1,203	1,616
Short-term interest-bearing debt	561	159
Finance lease liabilities	158	145
Gross debt	1,922	1,920
Cash and cash equivalents	159	167
Current financial assets	50	184
Investments held for lease obligations related to cross-border leases	210	200
Total cash and cash equivalents and investments	419	551
Net debt in accordance with the annual financial statements (IFRS)	1,503	1,369
50% of the subordinated perpetual bond loan	248	248
Net debt on the basis of Alliander's financial policy	1,751	1,617

Credit facilities

As at the end of June 2015, Alliander had at its disposal a revolving credit facility (RCF) for a total amount of €600 million, running until mid-July 2018. The RCF had not been drawn upon as at 30 June 2015 (unchanged from 31 December 2014). Alliander also has an EMTN programme of €3 billion, of which €1.5 billion had been issued as at 30 June 2015 (31 December 2014: €1.5 billion), and an ECP programme of €1.5 billion which has been drawn upon at 30 June 2015 €158 million (31 December 2014 €153 million).

The repayments in 2015 chiefly relate to the ECP programme (repayments in July and September 2015). The repayment obligations in the years ahead are mainly connected with the bond loans under the EMTN programme.



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 2015 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 2015 for Alliander N.V. and its consolidated group companies.

Arnhem, 29 July 2015

Management Board

Peter Molengraaf, Chairman

Mark van Lieshout

Ingrid Thijssen

Condensed consolidated half-year financial statements 2015

Consolidated income statement

€ million	2015	1 st half	2014 ¹
Revenue	777		786
Other Income	45		83
Total income		822	869
Operating expenses			
Purchase costs and costs of subcontracted work	-182		-182
Employee benefit expenses	-222		-224
External personnel expenses	-61		-54
Other operating expenses	-53		-112
Total purchase costs, costs of subcontracted work and operating expenses	-518		-572
Depreciation and impairment of property, plant and equipment	-159		-156
Less: Own work capitalised	84		78
Total operating expenses		-593	-650
Operating profit (EBIT)		229	219
Finance income		4	5
Finance expense		-38	-45
Result from associates and joint ventures after tax		-1	-
Profit before tax from continuing operations		194	179
Tax		-48	-33
Profit after tax from continuing operations		146	146
Profit after tax from discontinued operations		15	10
Profit after tax		161	156

Consolidated statement of comprehensive income

€ million	2015	1 st half	2014 ¹
Profit after tax		161	156
Other elements of comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Revaluation of available-for-sale assets		-	10
Comprehensive income		161	166

1. The figures have been restated for comparison purposes in connection with the classification of Endinet Groep as 'held for sale' (IFRS 5).

Consolidated balance sheet

€ million	30 June 2015	31 December 2014
Assets		
Non-current assets		
Property, plant and equipment	5,782	6,218
Intangible assets	281	322
Investments in associates and joint ventures	11	11
Available-for-sale financial assets	210	200
Other financial assets	43	43
Deferred tax assets	247	218
	6,574	7,012
Current assets		
Inventories	44	40
Trade and other receivables	251	258
Derivatives	9	2
Other financial assets	50	184
Cash and cash equivalents	159	167
	513	651
Assets held for sale	592	9
Total assets	7,679	7,672
Equity & liabilities		
Equity		
Share capital	684	684
Share premium	671	671
Subordinated perpetual bond	496	496
Revaluation reserve	42	42
Other reserves	1,560	1,363
Profit after tax	161	323
Total equity	3,614	3,579
Liabilities		
Non-current liabilities		
Interest-bearing debt	1,203	1,616
Finance lease liabilities	158	145
Deferred income	1,540	1,573
Provisions for employee benefits	45	49
Other provisions	1	1
	2,947	3,384
Short-term liabilities		
Trade and other payables	140	103
Tax liabilities	91	106
Interest-bearing debt	567	159
Derivatives	2	80
Provisions for employee benefits	55	67
Accruals	172	194
	1,027	709
Total liabilities	3,974	4,093
Liabilities held for sale	91	-
Total equity and liabilities	7,679	7,672

Consolidated cash flow statement

€ million	1 st half	
	2015	2014
Cash flow from operating activities		
Profit after tax	161	156
Adjustments for:		
- Finance income and expense	34	39
- Tax	51	36
- Profit after tax from associates and joint ventures	1	-
- Depreciation and impairment less amortisation	136	145
- Release CDS after tax	-49	-
Changes in working capital:		
- Inventories	-7	-1
- Trade and other receivables	-5	-5
- Trade and other payables and accruals	18	-58
Total changes in working capital	6	-64
Changes in deferred tax, provisions, derivatives and other	-20	-17
Cash flow from operations	320	295
Net interest paid	-39	-39
Net interest received	1	1
Corporate income tax paid	-41	-38
Total	-79	-76
Cash flow from operating activities	241	219
Cash flow from investing activities		
Investments in property, plant and equipment	-261	-273
Construction contributions received	32	39
Investments in financial assets (associates and joint ventures)	-	80
Cash flow from investing activities	-229	-154
Cash flow from financing activities		
Change in current interest-bearing liabilities and redemption current part of long-term debt	-17	-6
Loans received	-	3
Redemption long-term loans	6	-2
Change in current deposits	-25	100
Redemption marketable securities	141	-
Dividend paid	-125	-125
Cash flow from financing activities	-20	-30
Net cash flow	-8	35
Cash and cash equivalents as at the start of the period	167	155
Net cash flow	-8	35
Cash and cash equivalents as at 30 June	159	190

Reconciliation of net cash flow in 2015

In preparing the cash flow statement for the first half of 2015 (and 2014), the figures of Endinet Groep have been included. The figures in the cash flow statement are consequently not immediately reconcilable with the corresponding figures in the balance sheet and income statement, in which Endinet Groep has not been included in the consolidation. The cash flow analysed according to continuing operations (Alliander) and discontinued operations (Endinet Groep) is as follows:

€ million	Continuing operations	Discontinued operations	Eliminations	Total
Cash flow from operating activities	219	22	-	241
Cash flow from investing activities	-219	-10	-	-229
Cash flow from financing activities	-20	-13	13	-20
Net cash flow	-20	-1	13	-8

Consolidated statement of changes in equity

€ million	Equity attributable to shareholders and other providers of equity						Total
	Share capital	Share premium	Subordinated perpetual bond	Revaluation reserve	Other reserves	Profit for the year	
Equity as at 1 January 2014	684	671	496	24	1.212	288	3.375
Revaluation of available-for-sale financial assets	-	-	-	10	-	-	10
Profit after tax for the 1 st half of 2014	-	-	-	-	-	156	156
Comprehensive income for the 1st half of 2014	-	-	-	10	-	156	166
Dividend for 2013	-	-	-	-	-	-125	-125
Profit appropriation for 2013	-	-	-	-	163	-163	-
Equity as at 30 June 2014	684	671	496	34	1.375	156	3.416
Revaluation of available-for-sale financial assets	-	-	-	8	-	-	8
Interest coupon subordinated perpetual bond after tax	-	-	-	-	-12	-	-12
Profit after tax for the 2 nd half of 2014	-	-	-	-	-	167	167
Equity as at 31 December 2014	684	671	496	42	1.363	323	3.579
Revaluation of available-for-sale financial assets	-	-	-	-	-	-	-
Profit after tax for the 1 st half of 2015	-	-	-	-	-	161	161
Comprehensive income for the 1st half of 2015	-	-	-	-	-	161	161
Other ¹	-	-	-	-	-1	-	-1
Dividend for 2014	-	-	-	-	-	-125	-125
Profit appropriation for 2014	-	-	-	-	198	-198	-
Equity as at 30 June 2015	684	671	496	42	1.560	161	3.614

1. Rounding differences are presented in 'Other'.

Dividend

The dividend relating to the 2014 financial year (€124.6 million) was distributed in April 2015 (€0.91 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, Netherlands. This half-year report contains the financial information for the first half of 2015 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 2014 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 2015.

New or amended IFRS standards for 2015

IAS 19 (Amendments) Defined Benefit Plans, Employee Contributions concerns a simplification of the treatment of employee contributions and contributions from third parties relating to defined benefit plan pension contributions. Alliander has two defined benefit plans in Germany, not of material importance. Neither plan involves contributions from employees or third parties.

The IASB Annual Improvements Process 2010–2012 and the IASB Annual Improvements Process 2011–2013 resulted in corrections and minor amendments to a number of IFRS standards which are applicable for periods beginning on or after 1 January 2015. The changes do not affect this half-year report. Since corrections and minor amendments do not have a material impact on Alliander, they are not itemised here.

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, judgements and assumptions used are tested regularly and revised as necessary. There have been no changes in estimates, judgements and assumptions compared with year-end 2014.

Segment information

The figures 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

€ million	1 st half	
	2015	2014
Consolidated segment operating profits excluding incidental items	176	193
Incidental items and fair value movements	64	38
Financial income and expense	-34	-39
Share in results from associates and joint ventures	-1	-
Adjustment depreciation Endinet (Held for sale - IFRS 5)	9	-
Profit before tax from discontinued operations	-20	-
Profit before tax from continuing operations	194	192

Primary segmentation 1st half-year

€ million	Network operator Liander		Network company Endinet		Other		Eliminations		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Operating income										
External income	774	779	49	53	48	50	-	-	871	882
Internal income	3	2	-	-	151	142	-154	-144	-	-
Operating income	777	781	49	53	199	192	-154	-144	871	882
Operating expenses										
Operating expenses	580	571	41	43	228	219	-154	-144	695	689
Operating profit	197	210	8	10	-29	-27	-	-	176	193
Segment assets	30-6	31-12	30-6	31-12	30-6	31-12	30-6	31-12	30-6	31-12
Total assets	6,326	6,415	592	514	2,974	2,619	-2,213	-1,876	7,679	7,672

The segments correspond to Alliander's internal reporting structure, which does not take account of the classification of Endinet as 'held for sale'. This means that Endinet is included in the Alliander consolidation, with amortisation/depreciation continuing as well. As a consequence, the segment information is not the same as the operating profit recognised in the income statement.

Seasonal influences

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

Assets and liabilities held for sale and discontinued operations

On 24 March 2015, Alliander and Enexis signed a letter of intent containing heads of agreement on a transaction whereby Enexis Holding will sell NOP/Friesland Netwerkbetrijf to Alliander and Alliander in turn will sell Endinet Groep to Enexis. The relevant sale and purchase agreement (SPA) was signed on 27 July 2015 and the transaction will be effective on 1 January 2016. The signing of the letter of intent resulted in Endinet being classified as 'held for sale' in Alliander's consolidated balance sheet with effect from 24 March 2015 and treated in the income statement as discontinued operations, as required by IFRS 5. Classification as held for sale means that, with effect from 24 March 2015, all of Endinet's assets and liabilities in Alliander's consolidated balance sheet have been reclassified as 'assets held for sale' and 'liabilities connected with the assets held for sale'. Depreciation/amortisation charges also ceased to be recognised on Endinet's assets with effect from 24 March 2015.

Furthermore all intercompany positions between Alliander and Endinet are eliminated previously before the determination of 'Held for Sale' and "Discontinued Operations".

Classification as discontinued operations also means that Endinet Groep's consolidated income statement ceases to be included in Alliander's consolidated income statement with effect from 1 January 2015. For comparison purposes, Endinet Groep has also been eliminated from Alliander's figures for the first half of 2014.

Consolidated balance sheet totals of Endinet Groep held for sale

€ million	30 June 2015
Assets	
Non-current assets	
Property, plant and equipment	536
Intangible assets	41
	577
Current assets	15
Total assets	592
Liabilities	
Non-current liabilities	79
Short-term liabilities	12
Total liabilities	91

Consolidated income statement of Endinet Groep

€ million	1 st half	
	2015	2014
Revenue	47	51
Other Income	2	2
Total income	49	53
Operating expenses		
Purchase costs and costs of subcontracted work	-7	-7
Employee benefit expenses	-11	-11
External personnel expenses	-1	-2
Other operating expenses	-4	-3
Total purchase costs, costs of subcontracted work and operating expenses	-23	-23
Depreciation and impairment of property, plant and equipment	-9	-20
Less: Own work capitalised	3	3
Total operating expenses	-29	-40
Operating profit (EBIT)	20	13
Finance expense	-	-
Profit before tax	20	13
Tax	-5	-3
Profit after tax	15	10

Business combinations

In December 2014, Alliander Netz Heinsberg GmbH reached agreement with EWV Energie- und Wasser-Versorgung GmbH on the purchase of the gas distribution system in the municipality of Heinsberg with effect from 1 January 2015, for which the concession had been acquired at the end of 2014. The purchase price for the network was €3 million, which was paid at the beginning of January 2015. The concession runs for 20 years (up to 8 February 2035).

The allocation of the purchase price of €3 million depends on the permitted revenue for 2015 and subsequent years for the networks concerned. This revenue has been agreed in a separate contract between the old and new owners and the figure will be available in the second half of 2015. The following statement is therefore a provisional allocation.

Acquisition of gas network in Germany

€ million	Provisional fair value as at 1 January 2015
Property, plant and equipment	3
Total non-current assets	3
Total liabilities	-
Net assets acquired	3
Purchase price	
Cash	3
Less: net assets acquired	-3
Goodwill	-

The total purchase price, paid in cash, on 1 January 2015 was €3 million. The allocation of this purchase price is disclosed in the above analysis.

Net assets acquired (€3 million)

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

Other

The total costs associated with the acquisition of the gas distribution system in Waldfeucht amounted to €0.01 million. These costs were included in the income statement for 2014. The revenue from the networks concerned in the period 1 January 2015–30 June 2015 amounted to €0.15 million. The profit after tax for the same period was €0.05 million.

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. 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.

On 2 January 2015, the sub-transaction entered into in 1998 by what was then ENW in connection with the gas distribution system in Amsterdam was terminated on the cancellation option date provided for in the original contract. At the initiative of the investor concerned, the remaining three ENW sub-transactions (relating to the gas distribution systems of Kennemerland, Kop Noord-Holland and Midden Noord-Holland) were subsequently terminated ahead of time, on 14 April. An accelerated payment was also made on that date to settle the outstanding amounts owed in connection with the sub-transaction already terminated on 2 January 2015. The termination of these contracts in 2015 means that the gas distribution systems in Noord-Holland originally operated by ENW once again constitute totally unencumbered assets for Liander. The ENW transaction was the last cross-border lease in connection with which mortgages were established on networks (or parts thereof) in favour of a US investor and the banks involved. Termination of the ENW transactions means that both the strip risk and the credit risk vis-à-vis the banks were further diminished. This was the last transaction for which letters of credit covering the strip risk had to be provided by Alliander (as at year-end 2014: \$5 million).

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-2015 amounted to €0.5 billion (year-end 2014: €1.1 billion). At the end of June 2015, a total of \$2.7 billion (year-end 2014: \$3.1 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, they are not regarded as assets and liabilities of Alliander and the respective amounts are not recognised in the consolidated financial statements of Alliander. The assets over which Alliander does have powers of disposal are recognised as financial assets. The associated lease obligations are recognised in finance lease liabilities.

At the end of June 2015, 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 \$210 million (year-end 2014: \$194 million). The strip risk is largely dictated by market trends.

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 €0.2 million (first half 2014: €2 million) and joint ventures €36 million (first half 2014: €34 million); purchase of goods and services from associates €5 million (first half 2014: €4 million) and from joint ventures €44 million (first half 2013: €42 million).

As at the end of June 2015, Alliander had a receivable of €19 million (year-end 2014: €18 million) in respect of loans granted to related parties and liabilities of €21 million under a current account facility with related parties (year-end 2014: €27 million).

Other

Existing financial commitments relating to property, plant and equipment not shown on the face of the balance sheet as at 30 June 2015 amounted to €110 million (year-end 2014: €125 million).

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

Compared with the situation as at year-end 2014, there have been no changes in the contingent assets and liabilities.

Information on risks and financial instruments

Financial risks

The following financial risks can be identified: market risk, credit 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 2014 consolidated financial statements. There have been no changes in the risk management process or risk management policy since the end of 2014.

Measurement of 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

€ million	30 June 2015				31 December 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Available-for-sale financial assets non-current	-	210	-	210	-	200	-	200
Available-for-sale financial assets current	-	-	-	-	-	159	-	159
Current derivatives	-	-	-	-	-	2	-	2
Total assets	-	210	-	210	-	361	-	361
Liabilities								
Current derivatives	-	7	-	7	-	18	62	80
Total liabilities	-	7	-	7	-	18	62	80

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 level 2 derivatives are currency instruments. These are measured on the basis of the net present value of the future cash flows, calculated using the current interbank interest rate as at the reporting date plus market credit spreads for the parties concerned. Present values in foreign currency are translated at the spot rate applicable on the reporting date.

Methods used for level 3 fair value measurement

The current derivative shown under liabilities as at 31 December 2014 concerns a CDS instrument connected with two cross-border lease contracts. Since 2005, the CDS instrument has been part of investments connected with two cross-border lease contracts. The CDS is a product which insures the credit risk on an underlying portfolio made up of almost 100 reference bonds. The CDS had a 10 year maturity (expiring at the end of June 2015). The fair value of the CDS, based on professional measurement in December 2014, was \$18 million (€15 million). However, in the opinion of Alliander's management, this figure did not take sufficient account of the residual risks attaching to the product. Based on an internal risk analysis, a figure of \$75 million (€62 million) as at year-end 2014 was arrived at. The instrument matured on 22 June 2015.

The movements in these derivatives during the reporting period were as follows:

Movements in level 3 instruments

€ million	CDS
Carrying amount as at 1 January 2015	62
Changes recognised in profit and loss	4
Expiration derivative	(66)
Carrying amount as at 30 June 2015	-

Fair value of other financial instruments

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

Fair value of financial assets and liabilities measured at amortised cost

€ million	30 June 2015		31 December 2014	
	Fair value	Level	Fair value	Level
Non-current assets				
Other financial assets	43	2	44	2
Liabilities				
Non-current liabilities				
Financial lease liabilities ¹	-214	2	-207	2
Interest-bearing debt:				
Euro Medium Term Notes	-1,227	1	-1,703	1
Other interest-bearing debt	-162	2	-180	2
Total non-current liabilities	-1,603		-2,090	
Short-term liabilities				
Interest-bearing debt:				
Euro Medium Term Notes	-417	1	-	1
Euro Commercial Paper	-155	2	-153	2
Other interest-bearing debt	-7	2	-7	2
Total short-term liabilities	-579		-160	
Total liabilities	-2,182		-2,250	

1. The fair value of the lease liabilities as at 31 December 2014 has been restated for comparison purposes.

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.

Borrowings: 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 liabilities: 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

Network companies Enexis and Alliander have signed a sale and purchase agreement for the exchange of regional networks. This exchange concerns the energy networks of Enexis in Friesland and Noordoostpolder and that of Alliander in the Eindhoven and Southeast Brabant region (Endinet) as of 1 January 2016.

The purchase of the Friesland and the Noordoostpolder networks from Enexis will amount to €375 million, whereas the Alliander networks in the Eindhoven area and Zuidoost-Brabant (Endinet) will be sold for €740 million. The overall transaction will result in a book profit in 2016.

Auditors' review report

Auditors' review report

To the Supervisory Board and the Management Board of Alliander N.V.

Introduction

We have reviewed the condensed consolidated half-year financial statements for the period 1 January 2015 to 30 June 2015 of Alliander N.V., Arnhem, comprising the balance sheet as at 30 June 2015, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the period 1 January 2015 to 30 June 2015 and the related notes. The company's Management Board is responsible for the preparation and presentation of the 2015 condensed consolidated half-year financial statements in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union. Our responsibility is to express a conclusion on the 2015 condensed consolidated half-year financial statements based on our review.

Scope

We conducted our review in accordance with Dutch law, including Standard 2410 The Review of Interim Financial Information by an Entity's Independent Auditors. 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 Dutch 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 condensed consolidated half-year financial statements for the period 1 January 2015 to 30 June 2015 are not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union.

Amsterdam, 29 July 2015
PricewaterhouseCoopers Accountants N.V.

Original signed by:
Drs. R. Dekkers RA

Appendix

In accordance with the 'held for sale' classification (IFRS 5), the figures for Endinet are no longer included in Alliander's consolidated income statement and consolidated balance. For information purposes the consolidated income statement and the consolidated balance sheet of Alliander are stated below, as if the 'held for sale' classification (IFRS 5) is not taken into account.

Consolidated income statement

€ million	1 st half	
	2015	2014
Revenue	825	837
Other Income	47	85
Total income	872	922
Operating expenses		
Purchase costs and costs of subcontracted work	-189	-188
Employee benefit expenses	-233	-234
External personnel expenses	-62	-56
Other operating expenses	-57	-117
Total purchase costs, costs of subcontracted work and operating expenses	-541	-595
Depreciation and impairment of property, plant and equipment	-179	-176
Less: Own work capitalised	87	80
Total operating expenses	-633	-691
Operating profit (EBIT)	239	231
Finance income	4	10
Finance expense	-38	-49
Result from associates and joint ventures after tax	-1	-
Profit before tax	204	192
Tax	-51	-36
Profit after tax	153	156

Consolidated balance sheet

€ million	30 June 2015	31 December 2014
Assets		
Non-current assets		
Property, plant and equipment	6,308	6,218
Intangible assets	322	322
Investments in associates and joint ventures	11	11
Available-for-sale financial assets	210	200
Other financial assets	43	43
Deferred tax assets	206	218
Total Non-current assets	7,100	7,012
Current assets		
Inventories	47	40
Trade and other receivables	263	258
Derivatives	9	2
Other financial assets	50	184
Cash and cash equivalents	159	167
	528	651
Fixed assets held for sale	-	9
Total assets	7,628	7,672
Equity & liabilities		
Equity		
Share capital	684	684
Share premium	671	671
Subordinated perpetual bond	496	496
Revaluation reserve	43	42
Other reserves	1,560	1,363
Profit after tax	153	323
Total equity	3,607	3,579
Non-current liabilities		
Interest-bearing debt	1,203	1,616
Finance lease liabilities	158	145
Deferred income	1,576	1,573
Provisions for employee benefits	45	49
Other provisions	1	1
	2,983	3,384
Short-term liabilities		
Trade and other payables	144	103
Tax liabilities	96	106
Interest-bearing debt	567	159
Derivatives	2	80
Provisions for employee benefits	54	67
Accruals	175	194
	1,038	709
Total liabilities	4,021	4,093
Total equity and liabilities	7,628	7,672

July 2015

Alliander N.V.

Visiting address:
Utrechtseweg 68, 6812 AH Arnhem
Postal address:
P.O. Box 50, 6920 AB Duiven
info@alliander.com
www.alliander.com

Publication Alliander N.V.

