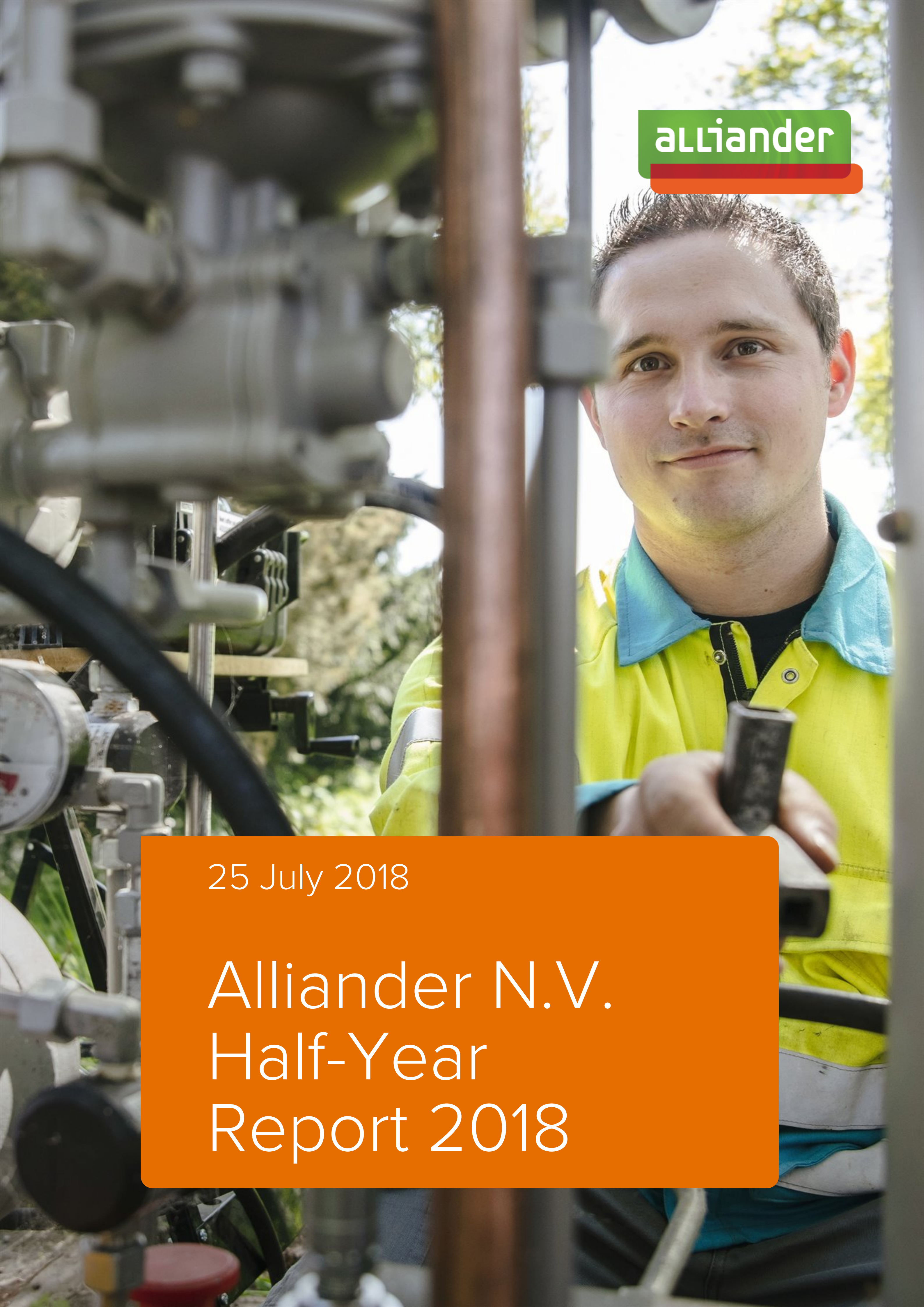


25 July 2018

# Alliander N.V. Half-Year Report 2018

# Disclaimer

This report is a translation of the Dutch half-year report 2018 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 2018 will prevail.

'We', 'Alliander', 'the company', 'the Alliander Group' or similar expressions are used in this report as synonyms for Alliander N.V. and its subsidiaries. Alliander N.V. holds the entire share capital of Liander N.V., Liandon B.V., Alliander Duurzame Gebiedsontwikkeling B.V., Kenter B.V. and Alliander AG among other entities. Liander refers to network operator Liander N.V. and its subsidiaries. In this report, the names of the various entities are also used without including the abbreviations for the legal structure.

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.

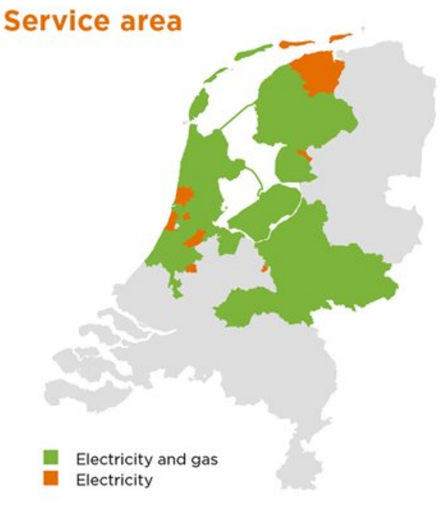
This report has been prepared using the accounting policies applied in the preparation of the 2017 financial statements of Alliander N.V. which can be found on www.alliander.com.

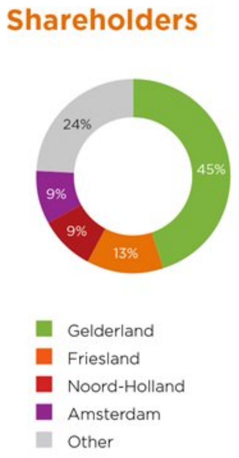
This report has not been audited.

# Contents

# Profile

Alliander is a network company. We operate an energy distribution system covering a large part of the Netherlands that gives everyone equal access to reliable, affordable and renewable energy. The shares are owned by municipalities and provinces.




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

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

# Mission and strategy

## Mission

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

## Our strategy

Alliander ensures that customers are able to make the right energy choices - both individually and as regards the entire energy supply system - so that everyone has equal access to reliable, affordable and renewable energy.

### Alliander opts for:

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

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

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

**Excellent network management is the basis**
Our energy networks are among the most reliable in the world. We keep the current networks affordable through efficient management and economies of scale. We also want to minimise the disruption our customers experience when we are carrying out work on their behalf.

# Objectives and results

## Safety

| Objectives | Results 30 June 2018 | Objectives ultimo 2018 | Results 31 December 2017 |
|---|---|---|---|
| LTIF (lost time injury frequency) | 1.4 | -[1] | 1.4 |
| Safety Culture[2,3] | 38% | 100% | 25% |

## Customers

| Objectives | Results 30 June 2018 | Objectives ultimo 2018 | Results 31 December 2017 |
|---|---|---|---|
| Net effort score | Consumer market 49.3% Business market 40.4% | Net effort score is higher than 51.0% (consumer market) and 46.0% (business market) | Consumer market 47.0% Business market 39.0% |
| Electricity outage duration (in minutes) | 29.3 | Maximum of 20.0 | 20.9 |
| The number of unique cable numbers with more than five interruptions | 22 | Maximum of 17 | 22 |
| Offer smart meter | 323,000 | Minimum of 584,000 addresses<br>Target 30th of June 2018: 285,000 | 536,000 |

## Employees

| Objectives | Results 30 June 2018 | Objectives ultimo 2018 | Results 31 December 2017 |
|---|---|---|---|
| Employee survey score[4] | - | Minimum of 75 | 71 |
| Employee absenteeism | 4.6% | Maximum of 3.9% | 4.2% |
| Women in leadership positions | 25.2% | Minimum of 27.8% | 24.9% |
| People at a distance from the labour market | 60 | Minium of 100<br>Target 30th of June 2018: 50 | 102 |

## Shareholders and investors

| Objectives | Results 30 June 2018 | Objectives ultimo 2018 | Results 31 December 2017 |
|---|---|---|---|
| Retention of solid rating | S&P: AA-/ A-1+/stable outlook Moody's: Aa2/ P-1/stable outlook | Maintain solid A rating profile | S&P: AA-/ A-1+/stable outlook Moody's: Aa2/ P-1/stable outlook |
| **Financial policy**[5] | | | |
| FFO/net debt | 29.7% | > 20% | 27.4% |
| Interest cover | 12.3 | > 3.5 | 10.2 |
| Net debt / (net debt + equity) | 34.3% | < 60% | 34.4% |
| Solvency | 56.7% | > 30% | 56.7% |
| **Sustainability** | | | |
| $CO_2$ emissions from business operations[6] | 274 kton | Maximum of 602 kton<br>Target 30th of June 2018: 299 kton | 632 kton |
| Circularity | 14.7% | Minimum of 10.0%<br>Target 30th of june 2018: 7.5% | 6.0% |

1 No target is set for the LTIF KPI. This is because the aim is to have zero accidents resulting in time off work.

2 The safety culture performance within Alliander is measured according to the position on the safety ladder. The score and target for 2018 are based on the number of employees having achieved a safety proficiency level of at least 3.

3 A new definition and target has been set for the active safety culture KPI from 2018. In future, we will exclusively look at the business units in scope, and the target will be 100%. The KPI-score of 2017 has not been adjusted as a consequence of the new target in 2018.

4 The survey is carried out once a year and the score will be reported in the second half of 2018.

5 The financial framework within which Alliander operates is based on four ratios. These ratios are calculated according to the principles of our financial policy. These principles differ in two respects from the classification according to IFRS: 1. Under IFRS the subordinated perpetual bond loan is recognised as equity whereas, according to the principles of our financial policy, this instrument is treated as 50% borrowed capital and 50% equity. 2. The funds from operations (FFO)/net debt ratio is the 12-month profit after tax adjusted for deferred tax movements and incidental items and fair value movements plus depreciation of property, plant and equipment and amortisation of intangible assets and accrued income, as a percentage of net debt. The interest cover ratio concerns the 12-month profit after tax, adjusted for the movements in the deferred tax assets and liabilities, for the incidental items and fair value movements, plus the depreciation and amortisation of property plant and equipment and intangible assets and the net amount of finance income and expense, divided by net finance income and expense adjusted for incidental items and fair value movements. The solvency ratio is obtained by dividing total equity including the profit for the period by total assets less the expected dividend distribution for the current year and deferred income.

6 The $CO_2$ emissions target for 2018 has been recalculated using the most recent emission factors. Since these factors were not known at the time of publication of the 2017 annual report and 2018 annual plan, the target shown for 2018 (602 kt) differs from the 2018 target previously published in the annual report and the annual plan (636 kt).

# Financial key figures

| € million, unless stated otherwise | 1st half 2018 | 2017 [1] |
|---|---|---|
| Revenue | 952 | 886 |
| Other income | 121 | 23 |
| Operating expenses | 780 | 762 |
| Operating profit | 293 | 147 |
| Profit after tax | 227 | 93 |
| Profit after tax excluding incidental items and fair value movements | 125 | 94 |
| Investments in property, plant and equipment | 345 | 292 |
| Cash flow from operating activities | 266 | 152 |
| | 30 June 2018 | 31 December 2017 |
| Total assets | 8,383 | 8,069 |
| Total equity | 4,117 | 3,942 |
| Net debt[2] | 1,963 | 1,888 |
| ROIC[3] | 5.1% | 4.6% |

1 The implementation of IFRS 15 with effect from 1 January 2018 means that the connection contribution amortisation amounts have been reclassified as revenue rather than other income. The 2017 comparative figures have been restated.
2 Net debt is defined as interest-bearing debt less cash and cash equivalents and investments that are not restricted.
3 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

Alliander posted a profit after tax of €227 million in the first half of 2018 (2017: €93 million). This increase is mainly the effect of an incidental book profit of €106 million in 2018 on the sale of the subsidiary Allego. Excluding incidental items, the profit was up by €31 million compared with the corresponding period in 2017. Alliander is continuing to invest in the energy system of the future. Economic growth combined with the acceleration in the energy transition means a sharp increase for us in the work we need to do on our networks and the investments which this involves. This coupled with the ongoing shortage of suitably skilled staff continues to hamper us in carrying out our work (or results in delays).

## Everyone safely home

Our target is and remains that everyone should get home safely from work. Working in energy supply and distribution demands a safety-first approach, both for our customers and for our workforce and contractors. In the first half of 2018, there were 19 incidents, 10 of which led to time off.

## Increasing pressure of work

The economy continues to grow strongly in large parts of our service area. We accordingly anticipate a sharp increase in the amount of work needed on our energy distribution systems in the years ahead. The ambitions of the Netherlands relating to sustainability and the international agreements on climate change are all accelerating the energy transition and increasing our workload. This combined with the shortage of people with the necessary technical training is unfortunately leading to longer delivery dates for our customers. We are therefore working hard to recruit suitable staff, train them up more quickly and make the best possible use of our scarce human resources with the right technical skills.

## The switch to renewables

The plans resulting from the Climate Agreement were recently presented. The Netherlands has set a target of reducing $CO_2$ emissions by 49% by 2030. This will not only have an impact on the amount of work we have to do but also involves changes to the entire energy system. The increase in solar PV, wind power, electric transport and heat pumps will mean drastically different utilisation of the grid. We are working towards better management of the power flows and avoiding unnecessary investments in the distribution network by using intelligent applications. The smart meter is an essential component of this approach. In the first half of 2018, the offer of having a smart meter fitted was made to 323,000 customers (first half of 2017: 257,000 premises).

Additionally, we are working on innovations like flexibility markets and providing unified connections for solar and wind. We are also participating in the largest worldwide experiment of smart charging of electric vehicles, an innovation with the potential to minimise peak loads on the grid and therefore avoid the need to enhance the capacity of the electricity supply system. Some 4,500 new EV smart charging points are being installed in the provinces of Gelderland and Overijssel.

Moreover, the Netherlands is taking specific steps to switch from gas to alternative sources of energy for cooking and heating. More and more municipalities are preparing actual plans for abandoning gas. In a growing number of districts we are accordingly partnering the local authority in drawing up specific approaches for facilitating the transition to a sustainable energy system. The City of Nijmegen, for instance, recently presented its ‘vision of heat’, including announcement of plans to switch more than 80,000 homes from gas to electricity by 2045.

## Sale of Allego

Alliander has sold its subsidiary Allego to Meridiam, a French investment company specialised in the development, financing and management of long-term and sustainable infrastructure projects. The change of ownership became effective on 1 June. Allego develops charging solutions and charging infrastructure for electric vehicles on behalf of municipalities, provinces, businesses and transport operators and is one of the leading players in Europe. Alliander founded Allego in 2013 with the objects of giving drivers of electric vehicles freedom of choice at charge points and developing solutions allowing electric vehicles to charge without overloading the grid, thus avoiding the need for capacity upgrades and all the work and cost which that would involve. As an international, long-term investor in infrastructure, Meridiam is an ideal fit with the activities of Allego and will be able to put the company in an excellent position for the next stage in its rapid international growth.

## Investments

The capital expenditure on the networks and the meters of grid operator Liander amounted to €302 million in the first half of 2018 (2017: €246 million). The investment in electricity distribution systems totalled €173 million (2017: €130 million), subdivided into €118 million for expansion and €55 million for replacing existing electricity distribution systems. The investment in the gas grid totalled €65 million (2017: €58 million), subdivided into €20 million for expansion and €45 million for the replacing existing gas distribution systems. The maintenance costs in the first half of 2018 were €144 million (in the first half of 2017: €123 million).

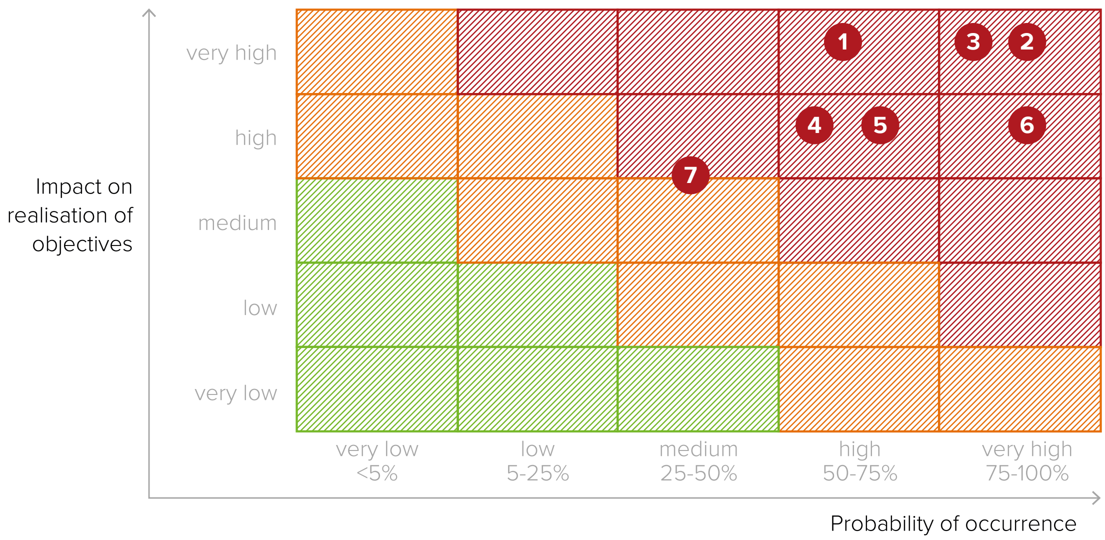
| € million | Realised until June 2018 | Realised until June 2017 | Target at year-end 2018 | Realised 2017 |
|---|---|---|---|---|
| Electricity | | | | |
| Expansion | 118 | 87 | 221 | 209 |
| Replacement | 55 | 43 | 144 | 105 |
| Gas | | | | |
| Expansion | 20 | 15 | 37 | 37 |
| Replacement | 45 | 43 | 109 | 93 |
| Metering devices | 63 | 54 | 142 | 110 |
| Other network | 1 | 3 | 10 | 10 |
| **Total investments** | **302** | **246** | **661** | **564** |
| Maintenance costs | 144 | 123 | 247 | 243 |
| **Total maintenance costs and network investments** | **446** | **369** | **909** | **807** |
| Number of addresses smart meters offered | 323,000 | 257,000 | 584,000 | 536,000 |

# Risk Management

The effort that Alliander puts into keeping energy reliable, affordable and accessible for everyone entails risks, for example safety and financial risks. Risks occur: that is inevitable. But it is important to know and understand these risks at all times. This helps us in considering how we control risks and how to achieve our strategic objectives in a responsible manner.

Alliander attaches great importance to good risk management. It gives us the assurance we need to achieve our strategic objectives in a responsible manner. We use a dedicated risk management framework that has been built around key principles. This enables the entire organisation to make adjustments and improvements whenever necessary, while ensuring that Alliander remains compliant with all laws and regulations. The risks are discussed frequently by the Management Board and with the Supervisory Board. The possible impact on our strategic objectives and the probability of occurrence determine what our main risks are.

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




The following paragraphs describe the nature of the various risks, the manner in which Alliander manages risk in each case and whether the risk has declined, remained the same or increased in the preceding six months.

## Safety →

### What is the risk?

Working with gas and electricity involves health and safety risks for our employees, contractors and customers. Insufficient safety awareness and lack of knowledge of safety instructions, quality & safety requirements and safety measures heighten the risk of accidents. Unsafe practices of third parties working on Alliander's behalf can also lead to safety risks.

### How is the risk managed?

Alliander works continuously to improve its safety culture as well as the safety of its processes and network components. If an incident occurs, an independent investigation is carried out to establish the immediate and underlying causes and to learn lessons for the future. Safety and the safety culture is a specific focus area within all operational units of Alliander and at contractors. A dedicated safety programme is in place to ensure ongoing improvements.

## Feasibility of the workload ↑

### What is the risk?

Due to the current rapid economic growth and the energy transition, the work volume is developing explosively and more quickly than anticipated. At the same time, the tight labour market for technical staff (combined with the long training period) makes it difficult to rapidly expand our workforce. As a consequence, we cannot do all the work that comes our way, or not within the desired time frame. Some customers are connected later than desired and technical network maintenance is sometimes postponed. This may adversely affect outage sensitivity.

### How is the risk managed?

Alliander is addressing the challenges surrounding the performance of its work package with a multifaceted approach:

- Improving the performance of the work package through better prioritisation, better workload predictability and active support to help customers solve their energy needs.
- Increasing capacity by offering more and faster training, releasing critical capacity, recruiting critical skills and smart outsourcing.
- Enhancing organisational efficiency through stronger operational management and smarter working practices.
- Preventing reputational damage through active monitoring of complaints and incidents, better internal communications and active reputation management.
- Active cooperation with the sector and education.

## Long-term regulatory focus ↑

### What is the risk?

Policy and regulations within the energy domain have an impact on our activities and profitability. We notice a growing mismatch between regulations and reality. This may affect our ability to facilitate the energy transition and the continuity of Alliander's ambitions.

### How is the risk managed?

If we are to continue being able to invest in new initiatives to facilitate the energy system of the future, it is important that any new legislative and regulatory requirements assist in this process. We outline future scenarios regarding the impact which the transition from fossil fuels to renewables will have on our infrastructure. We create future projections to indicate the necessary regulatory adjustments and engage in a dialogue on these matters with all the affected stakeholders with the aim of building a future-proof, sustainable energy supply system that gives everyone equal access to reliable and affordable energy. We also engage proactively with all parties involved in determining policy to achieve a shared view as regards necessary changes in the regulatory framework. Through the Association of Energy Network Operators in the Netherlands (Netbeheer Nederland) we attempt along with the other network operators to reach agreement with the various government ministries and the Authority for Consumers & Markets (ACM) on the details of such changes.

## Cybercrime →

### What is the risk?

Our energy networks and above-ground installations are steadily being digitised. Cyber attacks with a political or terrorist motive are increasingly targeting vital infrastructure. Alliander must respond proactively to the rise and changes in cybercrime. In this way, we can prevent a successful attack on our digitised networks from jeopardising the continuity of our services. That is why we continue to take above-average measures to protect and safeguard vital infrastructure.

### How is the risk managed?

We protect our energy and data networks and computers against attacks at various levels. We create awareness among our employees of cybersecurity risks, with a strong focus on prevention, detection and response. Alliander's security function is further expanded. We are also intensively addressing this issue together with other network operators within Netbeheer Nederland and maintain close contacts with the Dutch National Cyber Security Centre and other parties. Together we can keep up with rapidly-evolving developments and pick up external signals of attacks at an early stage.

## Privacy of energy data ➔

### What is the risk?

As part of our energy network management activities, and the market-facilitating activities of Liander, we have access to privacy-sensitive data. This concerns, for example, connections, energy contracts, usage and costs. Violation of the privacy of energy data leads to penalties and reputational damage.

### How is the risk managed?

We work closely with the other parties in the energy sector to ensure the effective protection of privacy-sensitive data. Information is exchanged with the regulators, the Dutch Authority for Consumers & Markets (ACM) and the Dutch Data Protection Authority (DPA), industry organisations (Netbeheer Nederland in the Netherlands and Energie-Nederland (E-NL)) and other relevant parties. Within its own organisation, Alliander has taken various initiatives to shield confidential data more effectively:

- Starting from 2016, organisations are obliged to report any personal data leaks to the Dutch Data Protection Authority. Alliander has set up the requisite processes and organisation for this purpose, while also tightening up its policy and guidelines.
- There was also an intensive effort in the period under review to comply with the changes in the law resulting from the EU General Data Protection Regulation which came into force on 25 May 2018.
- We are currently working on further improvements, including an overhaul of Liander's customer data privacy policy and the preparation of a Privacy & Security Roadmap in collaboration with IT.

## Required capacities and competencies ⬆

### What is the risk?

One of the biggest challenges for Alliander in our rapidly changing environment is to recruit and retain the right staff, particularly people with critical technical and IT skills. This risk overlaps with two other risks, namely 'Performance of work package' and 'Anticipating and keeping up with the energy transition'.

### How is the risk managed?

Our labour market efforts and campaigns are entirely targeted at the recruitment of scarce skills. Where possible, we also approach less obvious target groups, such as career changers, candidates for reskilling and international talent. We maintain close contacts with schools and universities to spot young talent and identify their wishes and expectations at an early stage. In addition, we are working with HR teams whose core task is to recruit the required capacity and competencies.

## Anticipating and keeping up with the energy transition ⬆

### What is the risk?

The use of solar panels, wind farms, heat pumps and electric vehicles and the phasing out of natural gas mean that many parts of the electricity network need to be rapidly upgraded. However, it is difficult to predict how quickly society will embrace the new energy system. The uncertainty surrounding the scenarios, especially with regard to the precise timing of the energy transition, makes it harder than ever to accurately anticipate events. If Alliander is not sufficiently flexible to deal with the uncertainty and the associated investments and does not have sufficient alternatives in place in order to avoid the need for network upgrades, there is a risk of making the wrong investments, jumping the gun or coming too late to the party, or of developing unnecessarily complex products. Added to this, falling revenue from the gas network may put the affordability of the energy system under further pressure.

### How is the risk managed?

Our approach is threefold. With data-driven network management, we generate more predictive insight into the future energy requirement in our regions and the impacts on our networks. By adopting a more proactive customer approach, we learn at an earlier stage about local developments and can influence the energy transition in a positive way. Innovative solutions enable us to prevent network upgrades and investments/divestments.

## Legal proceedings and claims

On and immediately after the balance sheet date, a number of claims were filed against Alliander. Alliander was also involved in a number of lawsuits at the balance sheet date, connected with normal business operations. These claims/ lawsuits could have a material impact on Alliander's results, should the outcome not go in Alliander's favour. Provisions have been recognised as necessary. A couple of significant cases are disclosed below.

Following a complaint concerning failure to complete a connection on time (later than 18 weeks), the ACM has mounted an investigation. Liander is also involved in legal disputes with a number of municipalities relating to sufferance tax. Liander could potentially be reclaiming an amount of €19 million. However, given the uncertainties, these receivables have not been recognised in the balance sheet as at 30 June 2018.

# Financial performance

## General

The profit after tax over the first half of 2018 was up by €134 million compared with the corresponding period in 2017 and came in at €227 million. For comparison with 2017, it should be stated that the result for 2018 included a book profit of €106 million on the sale of Allego[1]. Profit after tax from continuing operations excluding incidental items and fair value movements was €125 million, which is €31 million higher compared with the corresponding period in 2017. This is mainly the result of increased revenue from the regulated activities, although the effect was cancelled out to some extent by higher operating expenses. The net debt position has risen by €75 million to €1,963 million (31 December 2017: €1,888 million). The solvency ratio as at the end of the first half of 2018 was 56.7% (31 December 2017: 56.7%).

1 Final settlement will take place in the second half of the year.

# Income statement

### Operating income

The operating income for the first half of 2018 was up by €164 million compared with the first half of 2017, at €1,073 million. This is mainly due to the book profit on the sale of Allego (€106 million).

### Operating expenses

Total operating expenses in the first half of 2018 came in at €780 million (first half 2017: €762 million). The increase of €18 million in operating expenses was chiefly caused by:

- an increase in staff costs (both permanent and temporary staff) by a total of €13 million, mainly due to the deployment of extra capacity in order to execute the workload. Pay rises under the CLA and additions to employee-related provisions also resulted in increased staff costs;
- an increase of €6 million in depreciation, partly because of the higher level of investment over the past years;
- an increase of €14 million in purchase costs and costs of subcontracted work due to the expansion of the workload;
- an increase of €1 million in other operating expenses;
- the higher operating expenses was partly offset by the increase of €16 million in the capitalised production as a consequence of an increase in hours booked to capitalised production due to the increased level of activities.

### Finance income and expense

Finance income and expense in the first half of 2018 resulted in a net expense of €21 million (first half 2017: €21 million).

### Share in results from associates and joint ventures

The share in the results of associates and joint ventures for the first half of 2018 was nil (first half 2017: €2 million loss).

### Tax

The effective tax burden (the tax burden expressed as a percentage of the profit before tax excluding the result after tax from associates and joint ventures) amounted to 16% in the first half of 2018 (first half 2017: 28.8%). The difference compared with the nominal tax rate of 25% is due to the book profit on the sale of Allego, which qualified for the substantial-holding privilege.

The increased tax burden in 2017 is mainly explained by the tax losses of entities outside the Netherlands, which have not been recognised.

# Incidental items and fair value movements

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

## Reported figures and figures excluding incidental items and fair value movements

| | 1st half | | | | | |
|---|---|---|---|---|---|---|
| € million | Reported | | Incidental items and fair value movements | | Excluding incidental items and fair value movements | |
| | 2018 | 2017 [1] | 2018 | 2017 [1] | 2018 | 2017 [1] |
| **Revenue** | 952 | 886 | - | - | 952 | 886 |
| Other income | 121 | 23 | 106 | - | 15 | 23 |
| Total purchase costs, costs of subcontracted work and operating expenses | -701 | -673 | -5 | -1 | -696 | -672 |
| Depreciation and impairments | -198 | -192 | - | - | -198 | -192 |
| Own work capitalised | 119 | 103 | - | - | 119 | 103 |
| **Operating profit (EBIT)** | **293** | **147** | **101** | **-1** | **192** | **148** |
| Finance income/(expense) | -21 | -21 | - | - | -21 | -21 |
| Result from associates and joint ventures | - | -2 | - | - | - | -2 |
| **Profit before tax** | **272** | **124** | **101** | **-1** | **171** | **125** |
| Tax | -45 | -31 | 1 | - | -46 | -31 |
| Profit after tax from continuing operations | 227 | 93 | 102 | -1 | 125 | 94 |
| Profit after tax | 227 | 93 | 102 | -1 | 125 | 94 |

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

### Notes to incidental items

The exceptional income in the first half of 2018 (€106 million) is connected with the sale of Allego (first half 2017: nil).

The exceptional expense in the purchase costs, costs of subcontracted work and operating expenses in the first half of 2018 (€5 million) relates to reorganisation costs (first half 2017: €1 million).

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

# Segment result

Alliander distinguishes the following reporting segments in 2018:

- Network operator Liander;
- Other.

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

The operating profit for the Liander segment in the first half of 2018 amounted to €219 million, an increase of €20 million compared with the first half of 2017. The other segment (mainly comprising non-regulated activities, corporate staff departments and service units) posted an operating profit of €-27 million (first half 2017: €-51 million). In accordance with Alliander's policy, around 3% of the total annual turnover will be invested in innovation and new activities in the field of energy transition and sustainability.

# Cash flows

### Cash flow from operating activities

Cash flow from operating activities in the first half of 2018 was €266 million (first half 2017: €152 million). The increase of €114 million is due to a combination of increased profits, lower interest charges and a reduced tax burden and an improvement in working capital.

### Cash flow from investing activities

The cash flow from investing activities in the first half of 2018 amounted to €185 million negative (first half 2017: €245 million negative). The lower figure is largely the result the sale of Allego. Investments in property, plant and equipment in the first half of 2018 amounted to €345 million (first half 2017: €292 million).

## Investments in property, plant and equipment

| | 1st half | |
|---|---|---|
| € million | 2018 | 2017 |
| Electricity regulated | 174 | 132 |
| Gas regulated | 66 | 58 |
| Metering devices | 66 | 56 |
| Buildings, ICT etc. | 39 | 46 |
| Total[1] | 345 | 292 |

1 The amounts on page 10 are only related to Liander.

### Cash flow from financing activities

The cash flow from financing activities in the first half of 2018 was a cash inflow of €95 million, compared with an inflow of €127 million in the corresponding period in 2017. The inflow in the first half of 2018 was mainly the result of contracting loans of €174 million combined with changes in the subordinated perpetual bond loans. In the corresponding period of 2017, the inflow was due to borrowing under the ECP programme among other things.

# Financing and credit rating

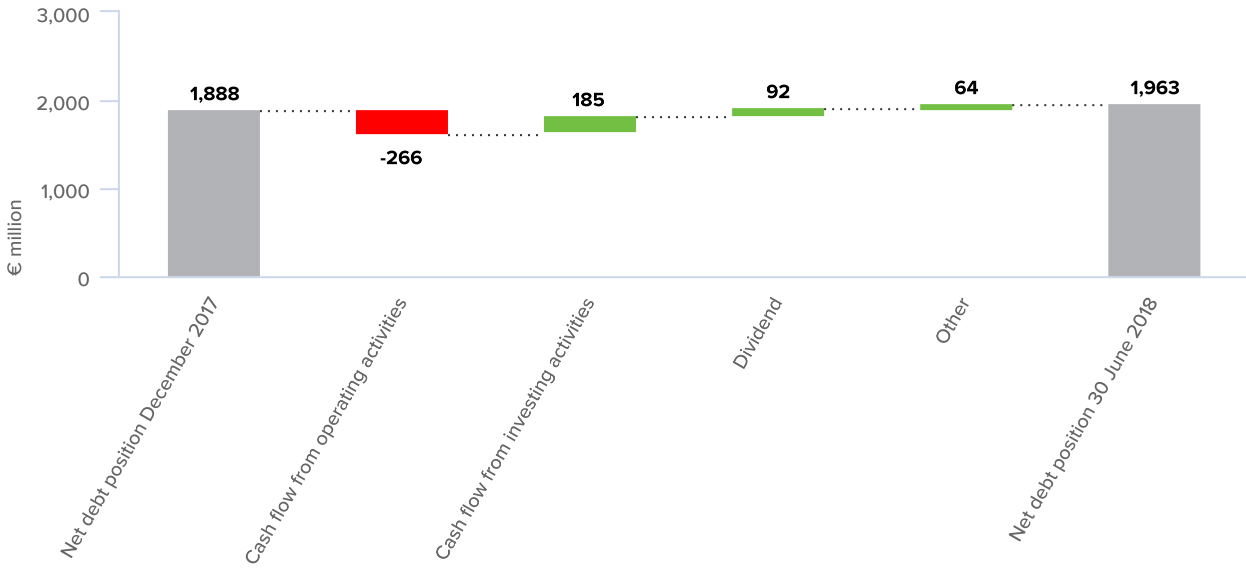
## Financial policy

Alliander's financial policy is aimed at achieving a balance between protecting bond holders and other providers of borrowed capital and maintaining an adequate shareholders' return, while preserving the necessary flexibility to enable the company to grow and invest. The financial framework within which Alliander operates is based on the four ratios presented in the targets and results under the financial policy. As at 30 June 2018, 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 as at 30 June 2018, based on IFRS, amounted to €1,628 million (31 December 2017: €1,640 million) and, based on Alliander's financial policy, €1,963 million (31 December 2017: €1,888 million). When calculating the ratios, the subordinated perpetual bond loan issued in 2018 is treated as 50% equity and 50% debt. The increase of €75 million is mainly due to the dividend payment for 2017 made in April 2018, amounting to €92 million, combined with the cash flows from operating and investing activities.



## Reconciliation of net debt position

| € million | 30 June 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| Long-term interest-bearing debt | 1,648 | | 1,553 | |
| Short-term interest-bearing debt | 256 | | 231 | |
| Finance lease liabilities | 155 | | 150 | |
| Gross debt | | 2,059 | | 1,934 |
| Cash and cash equivalents | 277 | | 101 | |
| Investments held for lease obligations related to cross-border leases | 154 | | 193 | |
| **Total cash and cash equivalents and investments** | | **431** | | **294** |
| Net debt in accordance with the annual financial statements (IFRS) | | 1,628 | | 1,640 |
| 50% of the subordinated perpetual bond | | 248 | | 248 |
| 100% of the remaining part of the hybrid 2013 | | 87 | | - |
| Net debt on the basis of Alliander's financial policy | | 1,963 | | 1,888 |

### Credit facilities

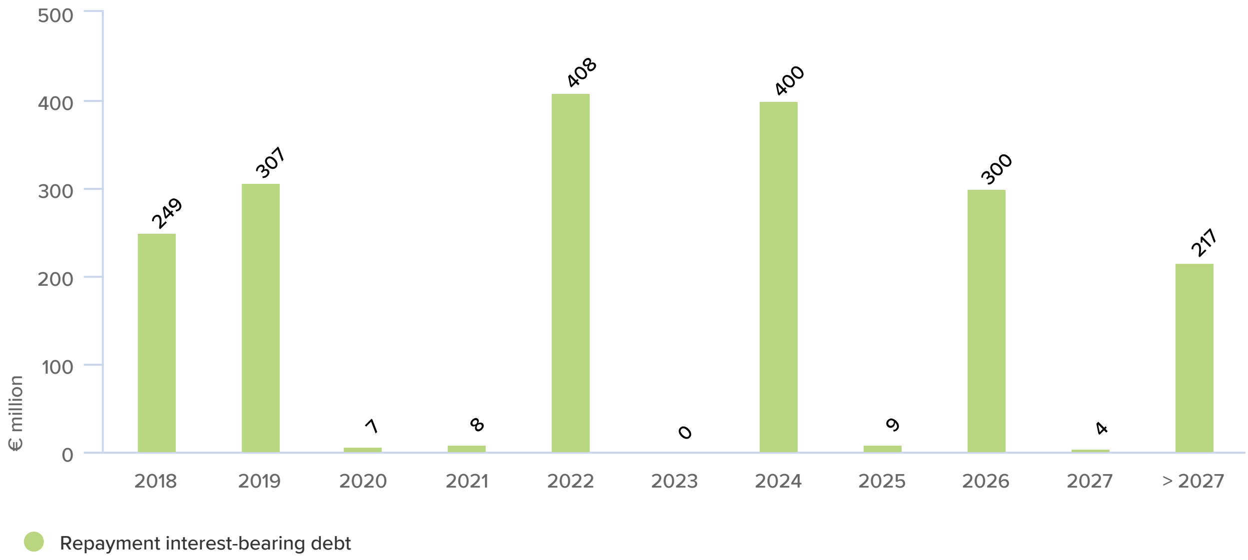
On 29 January 2018, Alliander announced its intention to issue a new subordinated perpetual bond. At the same time, a tender was issued for all €500 million of perpetual bonds in the 2013 issue, subject to the successful issue of the new loan. To this end, on 30 January, €500 million of new perpetual subordinated bonds was issued at a coupon rate of 1.625% and an issue price of 99.144%. At the end of the tender period on 5 February, investors holding a total som of €413 million of bonds from the 2013 issue had registered for repurchase by Alliander. The carrying amount of the hybrid instrument as at 31 December 2017 was €496 million. As a result of this transaction, including paid surplus and expenses, equity has increased by €71 million.

The new bond will, in accordance with Alliander's financial policy, count for 50% as equity when determining the financial ratios. The outstanding bonds of the 2013 loan will be accounted for as 100% debt as of January the 30th. Under IFRS, the current account will remain equity.

As at the end of June 2018, Alliander has at its disposal a revolving credit facility (RCF) for a total amount of €600 million, running until the end of July 2023. The RCF had not been drawn upon as at 30 June 2018 (unchanged from 31 December 2017). Additionally, Alliander has an Euro Medium Term Notes (EMTN) programme of €3 billion, under which notes to a value of €1.4 billion were in issue as at 30 June 2018 (as at 31 December 2017: €1.4 billion), and an ECP programme of €1.5 billion, under which short-term commercial paper to a value of €175 million was in issue as at 30 June 2018 (as at 31 December 2017: €224 million).

The repayments in the first half of 2018 were mainly connected with the current ECP programme (repayment of short-term issues in January, February, March and May 2018). The repayment obligations in the years ahead are mainly connected with the bond loans under the EMTN programme.

## Repayment schedule for interest-baring debt



# Statement by the Management Board

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

1. The consolidated half-year financial statements for 2018 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 2018 for Alliander N.V. and its consolidated group companies.

Arnhem, 25 July 2018

Management Board

Ingrid Thijssen, CEO

Mark van Lieshout, CFO

# Condensed consolidated half-year results 2018

## Consolidated income statement

| | 1st half | | | |
|---|---|---|---|---|
| € million | 2018 | | 2017 [1] | |
| **Revenue** | 952 | | 886 | |
| Other Income | 121 | | 23 | |
| **Total income** | | 1,073 | | 909 |
| **Operating expenses** | | | | |
| Purchase costs and costs of subcontracted work | -210 | | -196 | |
| Employee benefit expenses | -253 | | -243 | |
| External personnel expenses | -76 | | -73 | |
| Other operating expenses | -162 | | -161 | |
| **Total purchase costs, costs of subcontracted work and operating expenses** | -701 | | -673 | |
| Depreciation and impairment of property, plant and equipment | -198 | | -192 | |
| Less: Own work capitalised | 119 | | 103 | |
| **Total operating expenses** | | -780 | | -762 |
| Operating profit | | 293 | | 147 |
| Finance income | | 7 | | 9 |
| Finance expense | | -28 | | -30 |
| Result from associates and joint ventures after tax | | - | | -2 |
| **Profit before tax from continuing operations** | | 272 | | 124 |
| Tax | | -45 | | -31 |
| Profit after tax | | 227 | | 93 |

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

## Consolidated statement of comprehensive income

| | 1st half | |
|---|---|---|
| € million | 2018 | 2017 |
| Profit after tax | 227 | 93 |
| Other elements comprehensive income | | |
| Elements that are settled through the income statement | | |
| Revaluation of available-for-sale financial assets | - | -1 |
| Comprehensive income | 227 | 92 |

# Consolidated balance sheet

| € million | 30 June 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | 6,896 | | 6,793 | |
| Intangible assets | 316 | | 317 | |
| Investments in bonds | 3 | | 3 | |
| Available-for-sale financial assets | 154 | | 193 | |
| Other financial assets | 70 | | 41 | |
| Deferred tax assets | 208 | | 205 | |
| | | 7,647 | | 7,552 |
| **Current assets** | | | | |
| Inventories | 73 | | 74 | |
| Trade and other receivables | 339 | | 303 | |
| Corporate tax | 47 | | 39 | |
| Cash and cash equivalents | 277 | | 101 | |
| | | 736 | | 517 |
| **Total assets** | | 8,383 | | 8,069 |
| **Equity & liabilities** | | | | |
| **Equity** | | | | |
| Share capital | 684 | | 684 | |
| Share premium | 671 | | 671 | |
| Subordinated perpetual bond | 582 | | 496 | |
| Revaluation reserve | - | | 38 | |
| Other reserves | 1,953 | | 1,850 | |
| Result for the period | 227 | | 203 | |
| **Total equity** | | 4,117 | | 3,942 |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Interest-bearing debt | 1,648 | | 1,553 | |
| Finance lease liabilities | 155 | | 150 | |
| Deferred income | 1,638 | | 1,629 | |
| Deferred tax liabilities | 5 | | 5 | |
| Provisions for employee benefits | 47 | | 49 | |
| Other provisions | 9 | | 7 | |
| | | 3,502 | | 3,393 |
| **Short-term liabilities** | | | | |
| Trade and other payables | 138 | | 133 | |
| Tax liabilities | 73 | | 80 | |
| Interest-bearing debt | 256 | | 231 | |
| Provisions for employee benefits | 46 | | 33 | |
| Accruals | 251 | | 257 | |
| | | 764 | | 734 |
| **Total liabilities** | | 4,266 | | 4,127 |
| **Total equity and liabilities** | | 8,383 | | 8,069 |

# Consolidated cash flow statement

| | 1st half | | | |
|---|---|---|---|---|
| € million | 2018 | | 2017 | |
| **Cash flow from operating activities** | | | | |
| Profit after tax | | 227 | | 93 |
| Adjustments for: | | | | |
| - Finance income and expense | | 21 | | 21 |
| - Tax | | 45 | | 31 |
| - Profit after tax from associates and joint ventures | | - | | 2 |
| - Depreciation and impairment less amortisation | | 164 | | 159 |
| - Book result sale Allego | | -106 | | - |
| | | | | |
| Changes in working capital: | | | | |
| - Inventories | 1 | | -8 | |
| - Trade and other receivables | -36 | | -19 | |
| - Trade and other payables and accruals | -8 | | -29 | |
| **Total changes in working capital** | | -43 | | -56 |
| | | | | |
| Changes in deferred tax, provisions, derivatives and other | | 18 | | -21 |
| **Cash flow from operations** | | 326 | | 229 |
| | | | | |
| Net interest paid | -22 | | -23 | |
| Net interest received | 2 | | 1 | |
| Corporate income tax paid (received) | -40 | | -55 | |
| **Total** | | -60 | | -77 |
| | | | | |
| **Cash flow from operating activities** | | 266 | | 152 |
| | | | | |
| **Cash flow from investing activities** | | | | |
| Investments in property, plant and equipment | -345 | | -292 | |
| Construction contributions received | 50 | | 47 | |
| Sale of subsidiaries | 110 | | - | |
| | | | | |
| **Cash flow from investing activities** | | -185 | | -245 |
| | | | | |
| **Cash flow from financing activities** | | | | |
| Repayment subordinated perpetual bond | -412 | | - | |
| Issue subordinated perpetual bond | 495 | | - | |
| Issued long-term and cash loans | 174 | | - | |
| Repayment on long-term borrowings | -5 | | -5 | |
| Issued (repaid) ECP financing | -50 | | 221 | |
| Loans granted | -5 | | - | |
| (Repayment on) long-term loans granted | 4 | | - | |
| Received (deferred) short-term deposits | - | | 15 | |
| Dividend paid | -92 | | -104 | |
| Compensation for subordinated perpetual bond | -14 | | - | |
| **Cash flow from financing activities** | | 95 | | 127 |
| | | | | |
| **Net cash flow** | | 176 | | 34 |
| | | | | |
| Cash and cash equivalents as at 1 January | | 101 | | 48 |
| Net cash flow | | 176 | | 34 |
| | | | | |
| **Cash and cash equivalents as at 30 June** | | 277 | | 82 |

# Consolidated statement of changes in equity

| | Equity attributable to shareholders and other providers of equity | | | | | | |
|---|---|---|---|---|---|---|---|
| € million | Share capital | Share premium | Subordinated perpetual bond | Revaluation reserve | Other reserves | Profit for the year | Total |
| **As at 1 January 2017** | 684 | 671 | 496 | 46 | 1,685 | 282 | 3,864 |
| Revaluation of available-for-sale financial assets | - | - | - | -1 | - | - | -1 |
| Profit after tax for the first half of 2017 | - | - | - | - | - | 93 | 93 |
| Comprehensive income for the first half of 2017 | **-** | **-** | **-** | **-1** | **-** | **93** | **92** |
| Other[1] | - | - | - | - | -1 | - | -1 |
| Dividend for 2016 | - | - | - | - | - | -104 | -104 |
| Profit appropriation for 2016 | - | - | - | - | 178 | -178 | - |
| **As at 30 June 2017** | **684** | **671** | **496** | **45** | **1,862** | **93** | **3,851** |
| Revaluation of available-for-sale financial assets | - | - | - | -7 | - | - | -7 |
| Interest coupon subordinated perpetual bond after tax | - | - | - | - | -12 | - | -12 |
| Profit after tax for the second half of 2017 | - | - | - | - | - | 110 | 110 |
| **31 December 2017** | **684** | **671** | **496** | **38** | **1,850** | **203** | **3,942** |
| Revaluation of available-for-sale financial assets | - | - | - | - | - | - | - |
| Profit after tax for the first half of 2018 | - | - | - | - | - | 227 | 227 |
| Comprehensive income for the first half of 2018 | **-** | **-** | **-** | **-** | **-** | **227** | **227** |
| Other[1] | - | - | - | - | 1 | - | 1 |
| Change in valuation on the basis of IFRS 9 | - | - | - | -38 | 5 | - | -33 |
| Compensation subordinated perpetual bond after tax | - | - | - | - | -14 | - | -14 |
| Repayment subordinated perpetual bond | - | - | -409 | - | - | - | -409 |
| Issue of subordinated perpetual bond | - | - | 495 | - | - | - | 495 |
| Dividend for 2017 | - | - | - | - | - | -92 | -92 |
| Profit appropriation for 2017 | - | - | - | - | 111 | -111 | - |
| **As at 30 June 2018** | **684** | **671** | **582** | **-** | **1,953** | **227** | **4,117** |

1 Rounding differences are presented in 'Other'.

## Dividend

The dividend relating to the 2017 financial year (€92 million) was distributed in April 2018 (€0.67 per share).

## Subordinated perpetual bond loans

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

# Notes to the consolidated half-year figures

## General

Alliander N.V. is a public limited liability company, registered in Arnhem, the Netherlands. This half-year report contains the financial information for the first half of 2018 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 2017 annual report of Alliander N.V., which can be found at www.alliander.com, apart from the following changes in accounting policies based on the standards and interpretations effective as from 1 January 2018.

## New or amended IFRS standards for 2018

### IFRS 9: Financial Instruments

In July 2014, the IASB published the complete version of IFRS 9 'Financial Instruments', bringing together the various parts of the IASB project to replace IAS 39. It covers recognition and measurement, impairment and any hedge accounting in relation to financial instruments and largely replaces the requirements of IAS 39. IFRS 9 is applicable to reporting periods beginning on or after 1 January 2018.

For Alliander, the main impact of IFRS 9 is a change of policy with respect to the recognition of financial assets and credit losses on them. For Alliander this means that the financial assets are valued at amortised cost. The revised standard does not result in any change with respect to the recognition and treatment of financial liabilities.

The financial assets are classified as assets that are valued after initial recognition based on both the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset at:

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

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

In 2017, Alliander started the implementation programme. IFRS 9 has been applied retrospectively using the exemption not to restate the prior periods for financial assets valued at amortised cost.

Alliander has a modest portfolio of financial instruments classified as ‘available-for-sale financial assets’. This portfolio, comprising an investment in bonds, was measured at fair value. Given the business model, i.e. 'held to maturity', the bonds will be valued at amortised cost instead of at fair value under IFRS 9. This change means that the carrying amount of the bonds is reduced by €43 million, charged to other reserves as at 1 January 2018. The original recognition in equity of a revaluation reserve of €38 million and the associated deferred tax of €10 million ceases to apply, this change likewise being accounted for in other reserves.

| | Changes in GECC notes (€ million) |
|---|---|
| **December 31, 2017** | **193** |
| Value adjustment due to IFRS 9, including expected credit loss | -44 |
| | |
| As of January 1, 2018 | 149 |
| Currency translation differences | 5 |
| As of June 30, 2018 | 154 |

The fair value of the investment in bonds (GECC notes) as at 30 June 2018 amounted to €186 million.

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

Overall, implementation of IFRS 9 with effect from 1 January 2018 produces a positive change of €5 million in the other reserves in shareholders' equity. Alliander did not make any use of hedge accounting as at 1 January 2018 and in the first half of 2018.

## IFRS 15

IFRS 15 replaces the standards IAS 11 'Construction Contracts' and IAS 18 'Revenue Recognition' on 1 January 2018. In essence, IFRS 15 means that contracts with customers are decomposed into the performance obligations. The recognition of related assets and obligations and the recognition of revenue will be derived from the specific transaction prices of those performance obligations.

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

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

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

The valuation of revenue is based on the contractual performance obligations to customers, excluding amounts received on behalf of third parties. Revenue is recognized at the moment the control of goods and services is being passed to the customer.

In assessing the contracts, separate portfolio-based approaches are used for matters such as the connection, transport and metering services of the distribution system operating activities. Customer contracts for these services are entered into indefinitely, with the customer paying an investment contribution at the inception of the contract, followed by periodical payments for the service provided. The provision of this service concerns performance obligations satisfied over time. The related revenue is recognised over the period in which the customer receives the service. The upfront investment contribution concerns a payment for a performance obligation to be satisfied over the duration of the contract by giving access to the required assets. The contribution received is recognised in the balance sheet as a performance obligation that is still to be satisfied – deferred income – which is amortised over the useful life of the assets concerned. Prior to the implementation of IFRS 15, the amounts in respect of this amortisation were included in other income. Under IFRS 15, Alliander recognises all income from contracts with customers (IFRS 15) as revenue, with only other income, such as rental income, accounted for as other income. Alliander is applying IFRS 15 retrospectively and the decision to treat all income as defined in IFRS 15 as revenue leads to restatement of the comparative figures for 2017, resulting in the transfer of €47.6 million from other income to revenue in the 2017 first half income statement.

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

## Expected changes in accounting policies

### IFRS 16

The IASB published the new standard for leases on 13 January 2016. An implementation programme was begun at Alliander in 2017 to identify all the significant leasing arrangements. The implementation process for the new standard has now reached a stage where it can be decided how Alliander is going to deal with the changes from both an organisational and a systems point of view. Alliander will be implementing IFRS 16 with effect from 1 January 2019, using the modified retrospective approach rather than the full retrospective approach. Fully retrospective implementation would be too burdensome in view of the significance of leases in Alliander's case. Within the modified retrospective approach, Alliander is considering taking the practical approach of applying the existing type classification of the leases for the current contracts as at 1 January 2019, meaning that the distinction between finance leases and operating leases in the financial reporting in relation to the existing leases as at 1 January 2019 where Alliander is lessee will not be relevant anymore. New leases will, however, be treated in accordance with IFRS 16 with effect from 1 January 2019. An important implication for Alliander as lessee is that rights and obligations under operating leases will be included in the balance sheet. This will have the effect of increasing the size of the balance sheet to a certain extent. There will also be a shift in the income statement from operating expenses to depreciation and to finance expense. Precise figures for the increase in total assets and movements in the income statement cannot be given at this stage. In note [19] of the 2017 annual report it is disclosed that the existing obligations under operating leases amounted to €153 million as at year-end 2017. Under the new standard, a large part of this figure will be recognised in the balance sheet as right-of-use assets and lease liabilities. The greater part of these lease obligations concerns the leasing of premises and vehicles.

The new standard does not affect the way in which the cross-border leases are accounted for, however.

## 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, plant and equipment and any indication of impairment of items of property, plant and equipment, revenue recognition, amounts of receivables and the calculation of the amount of the deferred tax assets as well as the determination of the current tax position. The estimates, judgements and assumptions are mainly based on past experience and Alliander's management's best estimate of the specific circumstances that are, in the opinion of management, applicable in a given situation. Actual developments may differ from the estimates and assumptions used. As a result, the actual outcome may differ significantly from the current measurement of a number of items in the financial statements. The estimates and assumptions used are tested regularly and adjusted if necessary. Alliander is developing a number of new activities within the framework of its strategy. Due to the start-up nature of these activities inherent uncertainties are attached to their valuation.

# Segment information

To comply with IFRS 8, Alliander distinguishes the following reporting segments in 2018:

- Network operator Liander;
- Other.

The segmentation reflects Alliander's internal reporting structure. The networks taken over in Friesland and the Noordoostpolder with effect from 1 January 2016 have been included in the network operator Liander sector. The figures disclosed below for each reporting segment, excluding incidental items and fair value movements, are shown in the table entitled 'Primary segmentation first 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 | 1st half 2018 | 2017 |
|---|---|---|
| Consolidated segment operating profits excluding incidental items | 192 | 148 |
| Incidental items and fair value movements | 101 | -1 |
| Finance income and expense | -21 | -21 |
| Share in results from associates and joint ventures | - | -2 |
| Profit before tax from continuing operations | 272 | 124 |

## Primary segmentation first half-year

| € million | Network operator Liander 2018 | Network operator Liander 2017 | Other 2018 | Other 2017 | Eliminations 2018 | Eliminations 2017 | Total 2018 | Total 2017 |
|---|---|---|---|---|---|---|---|---|
| **Operating income** | | | | | | | | |
| External income | 876 | 836 | 91 | 73 | - | - | 967 | 909 |
| Internal income | 4 | 2 | 158 | 143 | -162 | -145 | - | - |
| **Operating income** | 880 | 838 | 249 | 216 | -162 | -145 | 967 | 909 |
| **Operating expenses** | | | | | | | | |
| Operating expenses | 661 | 639 | 276 | 267 | -162 | -145 | 775 | 761 |
| **Operating profit** | 219 | 199 | -27 | -51 | - | - | 192 | 148 |

| Segmented assets and liabilities | Network operator Liander 30-6 | Network operator Liander 31-12 | Other 30-6 | Other 31-12 | Eliminations 30-6 | Eliminations 31-12 | Total 30-6 | Total 31-12 |
|---|---|---|---|---|---|---|---|---|
| Total assets | 7,249 | 7,140 | 3,578 | 3,147 | -2,444 | -2,218 | 8,383 | 8,069 |
| Total liabilities | 4,672 | 4,706 | 2,199 | 2,088 | -2,605 | -2,688 | 4,266 | 4,127 |

### Product segmentation

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

| € million | Segmentation consolidated revenue to products | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | Transport and connection service Electricity | Transport service Gas | Connection service Gas | Metering Service small consumers Electricity | Metering Service small consumers Gas | Other activities |
| Revenue 30 June 2018 | 952 | 571 | 162 | 49 | 37 | 28 | 106 |
| Revenue 30 June 2017 | 886 | 549 | 151 | 46 | 27 | 20 | 93 |

In compliance with IFRS 15, the following table discloses the geographic segmentation of the consolidated revenue.

| € million | Geographical segmentation consolidated revenue | | |
|---|---|---|---|
| | Total revenue | The Netherlands | Abroad |
| Revenue 30 June 2018 | 952 | 931 | 21 |
| Revenue 30 June 2017 | 886 | 869 | 17 |

### Over time

Within Alliander, almost the entire amount of the revenue is classed as being ‘over time’ under IFRS 15.

### Seasonal influences

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

## Sale of Allego

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

Allego has around 200 employees. Revenue in 2017 amounted to €7 million. In establishing Allego back in 2013, Alliander was one of the first players to introduce electric vehicle charging solutions. Alliander wanted to explore what the impact of electric vehicle charging would be on the grid and to develop solutions for avoiding unnecessary grid investments that would be a burden on society at large. In the past five years, Allego has made an appreciable contribution to the creation of the charging infrastructure both in the Netherlands and beyond, and established an important position in this market. Electric vehicle numbers are really beginning to take off. With its new partner, Allego will be in an even better position to embark on the next stage of rapid international growth.

The purchase price is made up of a lump sum and a deferred payment (due 31 December 2023). The fair value of the deferred amount has been calculated at €28 million.

The book profit on the transaction is €106 million and this has been accounted for in other income. Final settlement will be made in the second half of the year.

## EMTN and ECP programmes

ECP totalling €247 million, denominated in US dollars ($305 million), has been issued in 2018. To hedge the associated currency risk, a number of US dollar forward currency operations were contracted immediately at the time of issue of the ECP. The repayments in the first half of 2018 were chiefly connected with the current ECP programme (repayment of short-term issues in February, March April and May 2018) and totalled €369 million. The value in US dollars was $455 million. Remaining repayments in 2018 principally relate to the current ECP issues still outstanding and those in the years ahead mainly concern the bond loans under the EMTN programme.

## Issue and repurchase of perpetual bonds

On 29 January 2018, Alliander announced its intention to issue a new subordinated perpetual bond. At the same time, a tender was issued for all €500 million of perpetual bonds in the 2013 issue, subject to the successful issue of the new loan. To this end, on 30 January, €500 million of new perpetual subordinated bonds was issued at a coupon rate of 1.625% and an issue price of 99.144%. At the end of the tender period on 5 February, investors holding a total som of €413 million of bonds from the 2013 issue had registered for repurchase by Alliander. The carrying amount of the hybrid instrument as at 31 December 2017 was €496 million. As a result of this transaction, including paid surplus and expenses, equity has increased by €71 million.

In line with Alliander's financial policy, the new bond loan will be treated as 50% equity in the financial ratios. For rating purposes, the outstanding bonds of the 2013 loan will be counted 100% as debt for rating purposes with effect from 30 January. Under IFRS, the existing recognition as equity will be continued.

## Business combinations

In the first half of 2018 and 2017 Alliander has not entered into new business combinations.

## Cross-border lease contracts

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

There were no changes in the existing CBL portfolio in the first half of 2018. The three transactions currently remaining relate to gas networks in Friesland, Gelderland, Flevoland, Noord-Holland and Utrecht, district heating networks in Almere and Duiven/Westervoort and the electricity network in the Randmeren region. The networks have been leased for a long period to US parties (head lease), which have in turn subleased the assets to the various Alliander subsidiaries (sublease). At the end of the sublease there is the option of purchasing the rights of the American counterparty under the head lease, thus ending the transaction. The terms agreed for the subleases expire between 2022 and 2028. The fees earned on the cross-border leases were recognised in the year in which the transaction in question was concluded. There are conditional and unconditional contractual rights and obligations relating to the cross-border leases.

The total net carrying amount of the assets forming the object of cross-border leases as at mid-2018 amounted to €0.6 billion (year-end 2017: €0.6 billion). At the end of June 2018, a total of $2.8 billion (year-end 2017: $2.8 billion) was held on deposit with several financial institutions or invested in securities in connection with these transactions.

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

At the end of June 2018, 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 $220 million (year-end 2017: $188 million). The strip risk is affected to a large extent by market developments.

In connection with the implementation of the Independent Network Operation Act, the heating networks belonging to Liander Infra N.V. that had been covered by a cross-border lease were subleased in mid-2008 to N.V. Nuon Warmte, part of N.V. Nuon Energy. These operating leases have a term of 12.5 years (term runs to 31 December 2020). The total carrying amount of the subleased heating networks and associated meters as at 30 June 2018 was €88 million (year-end 2017: €93 million).

## Related parties

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

The following transactions were entered into with related parties for the purchase and sale of goods and services: sale of goods and services to associates €0.1 million (first half 2017: €0.4 million) and joint ventures €47 million (first half 2017: €46 million); purchase of goods and services from associates €7 million (first half 2017: €7 million) and from joint ventures €55 million (first half 2017: €46 million).

As at 30 June 2018, Alliander had assets of €19 million (year-end 2017: €18 million) in respect of loans granted to related parties and assets of €30 million in respect of agreed borrowings on current accounts with related parties (year-end 2017 assets of: €25 million).

## Other

In November 2010, Alliander issued a subordinated perpetual bond loan with a nominal value of €500 million. In the closing two months of 2013, this subordinated perpetual bond loan was redeemed. Under IFRS, an instrument of this kind qualifies as equity. With respect to the periodical payments made to the holders of the bonds issued in 2010, it was assumed that the interest expense would be deductible for corporate income tax purposes. No agreement has been reached with the Dutch Tax & Customs Administration concerning the tax treatment of this loan. In the appeal proceedings, the District Court at Arnhem declared Alliander's appeal well-founded in a ruling dated 20 December 2016. The case was taken to the Arnhem-Leeuwarden Court of Appeal that upheld the District Court's decision in a ruling given on 12 June 2018. The Dutch Tax & Customs Administration is seeking to have the Appeal Court ruling overturned in cassation by the Supreme Court.

In 2016 and 2017, assessments for corporate income tax were imposed in respect of the period 2010-2013 which did not allow for the above deductible interest expense. Based on the advice of external consultants, the Management Board decided to recognise a receivable in respect of the disputed corporate income tax paid. A similar question hangs over the withholding tax payable on dividends. No withholding tax assessments (final or provisional) have been paid. Again, having consulted outside experts, the Management Board decided not to recognise a provision in this respect. As at 30 June 2018, the total maximum exposure for Alliander including interest was €38 million.

# Information on risks and financial instruments

## Financial risks

The following financial risks can be identified: market risk, credit risk, currency risk and liquidity risk. The condensed consolidated half-year financial statements do not, as is required for the full-year consolidated financial statements, contain comprehensive information on the above financial risks to which Alliander is exposed and the policy for managing the risks associated with financial instruments and should be read in conjunction with the 2017 consolidated financial statements. There have been no changes in the risk management process or risk management policy since the end of 2017. There were no material credit-related losses in the first half of 2018.

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

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

- level 1, quoted prices (unadjusted) on active markets for comparable assets or liabilities;
- level 2, inputs other than level 1 quoted prices observable for a particular asset or liability, either directly (i.e. in the form of actual prices) or indirectly (i.e. derived from prices);
- level 3, inputs not based on observable market data.

The implementation of IFRS 9 with effect from 1 January 2018 means that Alliander no longer has any financial instruments measured at fair value.

## Fair value hierarchy

| | 30 June 2018 | | | | 31 December 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| € million | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | | | | | |
| Available-for-sale financial assets | - | - | - | - | - | 193 | - | 193 |
| Total Assets | - | - | - | - | - | 193 | - | 193 |
| Liabilites | | | | | | | | |
| Current derivatives | - | - | - | - | - | 2 | - | 2 |
| Total Liabilities | - | - | - | - | - | 2 | - | 2 |

## Methods used for level 2 fair value measurement

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

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

## Fair value of other financial instruments

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

## Fair value of financial assets and liabilities measured at amortised costs

| € million | 30 June 2018 Fair value | 30 June 2018 Level | 31 December 2017 Fair value | 31 December 2017 Level |
|---|---|---|---|---|
| Non-current assets | | | | |
| Other financial assets | 257 | 2 | 41 | 2 |
| | | | | |
| Liabilities | | | | |
| **Non-current liabilities** | | | | |
| Finance lease liabilities | -194 | 2 | -200 | 2 |
| Interest-bearing debt: | | | | |
| Euro Medium Term Notes | -1,512 | 1 | -1,531 | 1 |
| Other interest-bearing debt | -258 | 2 | -173 | 2 |
| **Total non-current liabilities** | **-1,964** | | **-1,904** | |
| | | | | |
| Short-term liabilities | | | | |
| Interest-bearing debt: | | | | |
| Euro Medium Term Notes | - | 1 | - | 1 |
| Euro Commercial Paper | -175 | 2 | -225 | 2 |
| Other interest-bearing debt | -86 | 2 | -11 | 2 |
| **Total short-term liabilities** | **-261** | | **-236** | |
| | | | | |
| Total liabilities | -2,225 | | -2,140 | |

### Measurement of fair value

The fair value of these instruments is measured as follows:

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

Interest-bearing debt: The fair value of the Euro Medium Term Notes is measured on the basis of market prices quoted by Bloomberg. The fair value of the other loans received is measured on the basis of the outgoing cash flows discounted using risk-free interest rates plus credit spreads applicable to Alliander. As regards the current portion of these liabilities, it is assumed that the fair value is more or less the same as the carrying amount.

Finance lease obligations: the fair value of these liabilities is measured on the basis of the future cash flows discounted using risk-free interest rates plus credit spreads applicable to Alliander.

The fair value of the following financial assets and liabilities is more or less the same as the carrying amount:

- trade and other receivables;
- current tax assets;
- current other financial assets;
- cash and cash equivalents;
- trade and other payables;
- current tax liabilities.

# Events after balance sheet date

There have not been any events since the balance sheet date.

# Review report

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

## Introduction

We have reviewed the accompanying condensed consolidated interim financial information of Alliander N.V., Arnhem, which comprises the statement of financial position as at June 30, 2018, the statements of comprehensive income, changes in equity, and cash flows for the period of six months ended June 30, 2018 and the notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on the condensed consolidated interim financial information based on our review.

## Scope

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

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at June 30, 2018 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Rotterdam, July 25, 2018

Deloitte Accountants B.V.

Signed by J. Dalhuisen

July 2018

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