

The logo for Alliander, featuring the word "alliander" in white lowercase letters on a green rectangular background with a red horizontal bar underneath.

alliander

Annual Report 2017

Shaping the transition together



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About this report



About this report

The Alliander annual report provides an account of our activities from 1 January 2017 to 31 December 2017. Key to our integrated reporting are an open dialogue with stakeholders, transparency and the impact of our activities on society. The annual report was published on 22 February 2018.

Structure of the report

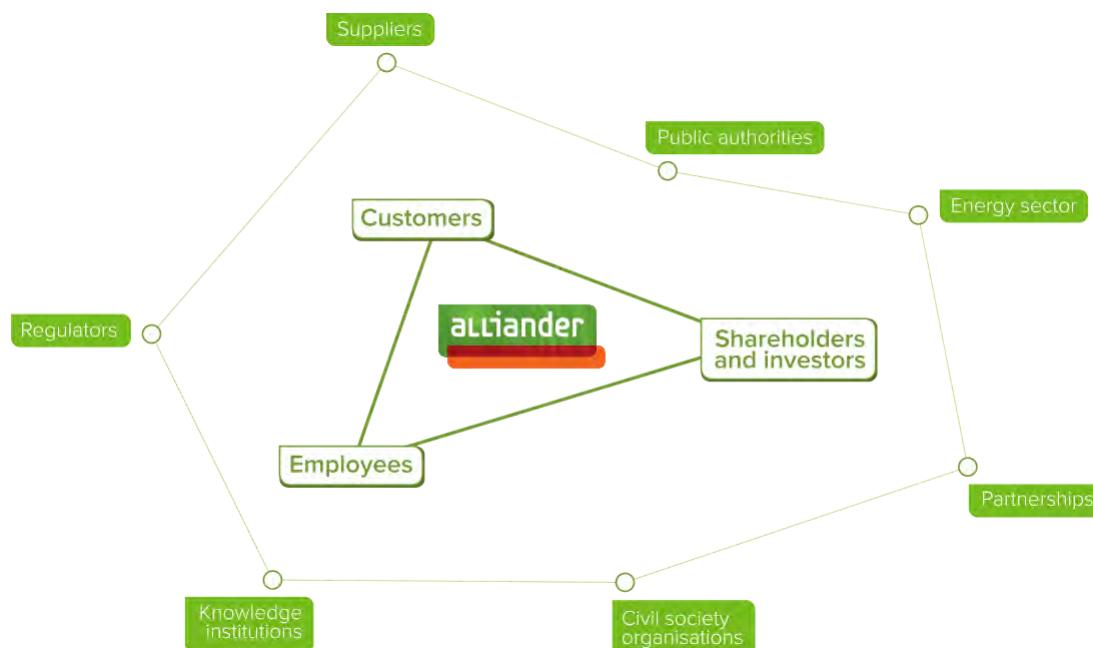
The 2017 annual report is mainly structured according to our largest stakeholder groups. This approach corresponds with Alliander's governance model, which is geared to these groups:

- Customers
- Employees
- Shareholders and investors

Stakeholder dialogue is the basis

We maintain an ongoing dialogue with our stakeholders: customers, employees, shareholders, public authorities, investors and others. The dialogue was intensified in 2016 and continued in the form of a consultation round with 160 municipalities and four provinces in 2017. The vigorous dialogue with our stakeholders keeps us in touch with trends in society, the expectations regarding Alliander and how we can work together to achieve a smooth and swift energy transition at the lowest possible costs to society. We also regularly share thoughts and ideas with our stakeholders, and seek feedback on proposed policy choices and decisions.

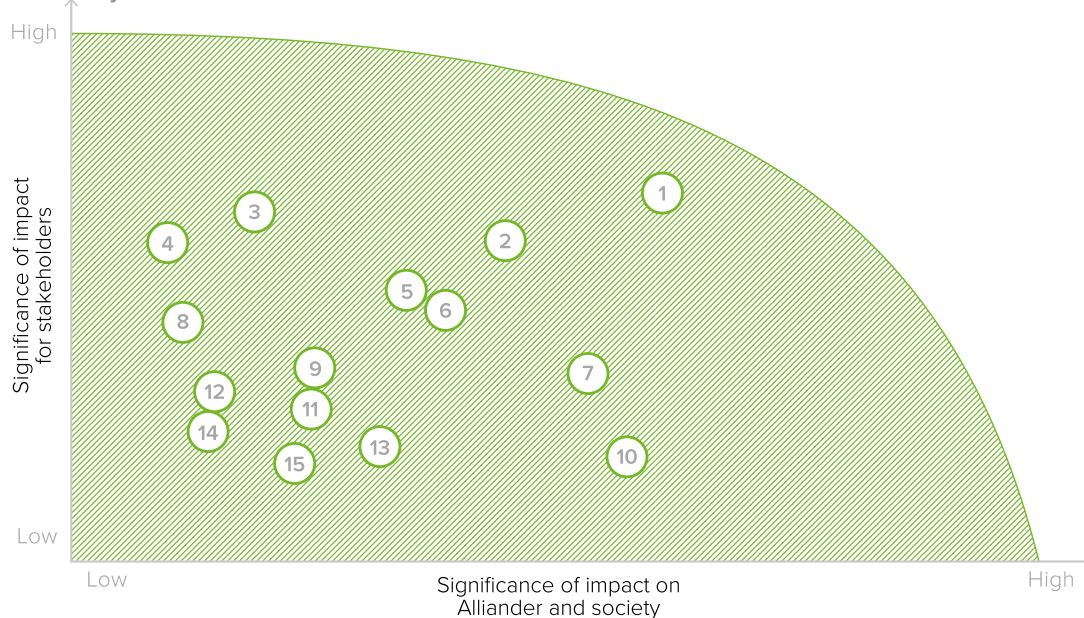
Stakeholders



Materiality of our stakeholders

Each year we ask our stakeholders to tell us what aspects they consider important for inclusion in the annual report. The fifteen highest-scoring aspects were elaborated in more detail. These form the basis of the annual report. To find out how these aspects are linked to, for instance, Alliander's strategy, simply visit our online annual report and click on an aspect in the illustration below. You will then receive an explanation of the selected aspect, its relationship with our strategy and the results achieved in 2017. The complete materiality chart can be found at Other information.

Materiality chart



1 Reliability of supply
2 Safe and healthy working practices
3 Innovation
4 Role of energy generation
5 Smart networks and data technology

6 Regulation and tariffs
7 Safe infrastructure
8 Transparency
9 Economic performance
10 Training and development

11 Customer Satisfaction
12 Climate change, energy consumption and CO2
13 Investment policy
14 Chain responsibility
15 Corporate Governance and business ethics

Integrated report

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

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

Once the internal assessments have been performed, the draft report is sent to the Disclosure Committee, and the outcomes of the discussion are incorporated. The final draft version is submitted to and discussed in the Management Board. Comments are incorporated and this version is then adopted as the final version. The members of the Audit Committee of the Supervisory Board assess and adopt the final version of the integrated financial and social report. Any comments are incorporated in the final version.

The financial and non-financial information in the report has been consolidated for Alliander and the subsidiaries with a significant impact on the material aspects. Where information is not consolidated, this is explicitly stated. The report also includes information of other Alliander business units whose activities are mainly dedicated to the energy transition. The outcomes of the materiality analysis were the leading factor in the information-gathering process.

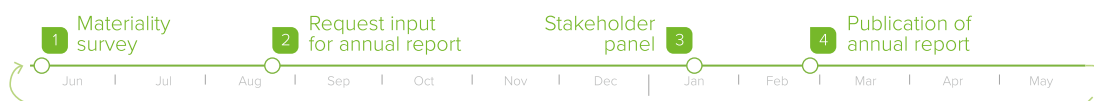
Transparency

Alliander operates in the complex dynamics of the rapidly-changing energy sector. Our stakeholders highly value transparency, and so do we. Our ambition is to remain a leader in transparent reporting. This is the first year that we apply the GRI Standards (Comprehensive option). As such, we apply with the Transparency Guideline and the revised Dutch Corporate Governance Code and the Decree on Corporate Governance 2009. In spring 2017, regulations for non-financial information entered into force through the 'Disclosure of Non-Financial Information Decree' (*'Besluit bekendmaking niet-financiële informatie'*) and the Disclosure of Diversity Policy Decree (*'Besluit bekendmaking diversiteitsbeleid'*). Alliander adheres to these regulations in this report. The Human Rights theme was found to be immaterial in the context of our operations. We report partly on bribery and corruption in the Corporate Governance chapter. The GRI Content Index with this report contains a reference or explanation for all themes that were found to be material.

Stakeholder Panel

In keeping with last year, a stakeholder panel read draft a version of the report. The panel provided valuable feedback that was incorporated in this version. In addition, a joint session with a panel of stakeholders was held on 19 January 2018 to discuss Alliander's role in the energy transition, the interrelationships between the subjects in this report (connectivity), the value of impact measurements and the effect of SDGs at an operational level. The full reflection of the stakeholder panel is contained in the report.

Stakeholder involvement in Alliander Annual Report



Sustainable Development Goals (SDGs)

The United Nations presented its sustainable development goals in 2015. Alliander explored which goals it could make the biggest contribution to. These can be found in the Sustainable Development Goals section. It is our ambition to give the SDGs a prominent place in our accountability information in the coming years. We want to be transparent about how and what we contribute to the attainment of these goals.

Continuous reporting

Our annual report highlights our performance and activities in the past year. Halfway through the year we also provide a summary of our year-to-date results, while our year plan looks ahead to the next year. Since 2017 we have expanded the reporting cycle to include monthly online reports (continuous reporting). The focus here is on our key energy transition results in such areas as solar and wind energy and the number of e-charging posts. In addition, we report our monthly KPI scores on, for instance, customer satisfaction, network outages and the roll-out of smart meters. You can view the dashboard on Alliander.com.

Invitation to stakeholders and readers

Alliander wants to continue its dialogue with stakeholders about the transition to the new energy system. We aim to involve partners at an early stage in the energy transition agenda to align their energy needs and with our efforts. We are also keen to form coalitions in order to tackle cross-sector labour market issues. Similarly, collaboration is vital in our strategy to give shape to the natural gas heating transition and to offer customers more choice and flexibility. If you have any ideas or want to give your views on themes such as the heating transition, a natural gas-free future or electric driving, please contact us on communicatie@alliander.com.

Finally, we invite readers of this report to ask questions, make comments and provide suggestions, also on communicatie@alliander.com.

Our story in 2017



Our story in 2017

The Dutch economy continued to grow vigorously in 2017, and the energy transition also gathered pace. As a result, Alliander is confronted with rapidly increasing demand for new or bigger connections, and has to expand the underlying energy networks in its entire service area. This two-fold development, combined with a large shortage of technicians in the labour market, was a major challenge for Alliander in 2017 and will continue to be so in the coming years.

Everyone safely home

Safety is paramount while working on electricity and gas networks, both for our customers, our colleagues and the employees of contractors who work for us. Fortunately, no safety incidents with serious injuries occurred in 2017. We at Alliander are pleased that the number of work accidents leading to absenteeism (relative to the number of hours worked) dropped to an all-time low in 2017.

However, there is no reason for complacency. Last year we conducted a large-scale audit to ascertain whether safety is well-organised and anchored within our organisation. This produced valuable ideas for improvements, which will be acted on in 2018.

Working under pressure

Due to the combination of a reviving economy, the accelerating energy transition and the scarcity of technicians in the labour market, Alliander is struggling to keep up with its huge workload. Nevertheless, we managed in almost all cases to connect customers as agreed. To be able to do so, however, we had to give network maintenance a lower priority. This may make our infrastructure more fault-sensitive.

Clearly, we remained very active in the labour market to recruit skilled technical staff in 2017. Much effort was also put into the accelerated training and reskilling of new colleagues. Thanks to these efforts, we were able to hire over 150 new technicians in 2017. To provide transparency about the limited availability of staff for work in hand, we have entered into dialogue with customers and municipalities and jointly look for appropriate solutions.

Low outage duration

In 2017, Alliander again performed well in terms of reliability: electricity outage duration for customers was 21 minutes (2016: 23.3 minutes). This good performance was achieved despite network maintenance being under pressure, and was largely attributable to the introduction of digital tools and improved operational control.

If the Dutch air force helicopter had not hit our high-voltage power lines at Culemborg on 13 November 2017, the outage duration would have been the lowest ever in Alliander's history. This helicopter incident left over 24,000 households and businesses without electricity. The Liandon engineers managed within hours to fully restore the power supply to all affected customers.

Innovation is vital

The increased use of solar panels, wind turbines, electric transport and heat pumps is leading to more frequent peak load in the electricity network. Upgrading the electricity network to absorb this would require large investments and involve higher costs to society. Moreover, such network upgrades are labour-intensive operations. For this reason, Alliander is working on technical innovation and new market models in order to avoid unnecessary adjustments to the network. In 2017, Alliander continued to invest in these activities through its innovation portfolio. Last year, instead of upgrading the network, we gave customers in the municipality of Nijmegen a financial incentive to limit electricity usage at peak times. Furthermore, we are testing the possibility of connecting solar fields and wind energy to a single cable, and started up the Neighbourhood Battery pilot in 2017. One problem confronting Alliander is that existing laws and regulations impede the adoption of new insights and solutions. We are in talks with the Ministry of Economic Affairs & Climate Policy and the Netherlands Authority for Consumers & Markets (ACM) to address this situation.

Making the transition together

Initiatives to implement the climate arrangements made in the past years are gathering pace. Network companies have a crucial role to play in the transition to a sustainable energy system. The coalition agreement devotes explicit attention to their collaboration with public authorities. This partnership is increasingly taking tangible shape. Over the past two years we conducted a tour of a large number of municipalities and provinces in our service area to discuss the best possible approach to the transition and the appropriate choices for society. In 2017, we took further steps to prepare our organisation for this new role.

Corporate social responsibility

Alliander is actively committed to corporate social responsibility. Its carbon emissions were reduced further in 2017. As part of our aim to achieve climate-neutral operations by 2023, we offset our grid losses in various ways, including the procurement of additional wind energy generated in the Netherlands. Another important development concerns the use of resources and materials. Alliander has agreed with eight other parties to adopt a uniform procedure for requesting information on the origin of resources by no later than 2020. The resource passport was launched for this purpose early in 2017.

Departure of Peter Molengraaf

In 2017, CEO Peter Molengraaf left Alliander after serving the company for almost ten years. In the period after the unbundling operation, he gave Alliander a face of its own. He was the dedicated and driving force behind many innovations and prepared our company for the changes ahead. We are extremely grateful to him for this.

Financial results

Alliander's profit after tax amounted to € 203 million (2016: € 282 million). The decrease was mainly attributable to the book profit of € 176 million on the sale of Endinet in 2016.

The operating result excluding incidental items amounted to € 206 million in 2017. This represents an increase of € 74 million compared with 2016, the main contributing factor being that operating income was up € 117 million as a result of increased regulated revenues due to higher regulated tariffs. This increase includes compensation for sufferance tax from previous years. Total operating expenses climbed to € 1,535 million (2016: € 1,516 million). Investments in the network and meters of network operator Liander amounted to € 573 million in 2017 (2016: € 555 million). The costs of network outages and maintenance in 2017 totalled € 243 million (2016: € 240 million).

Our financial position remained solid in 2017, as is reflected in the affirmation of our solid S&P and Moody's credit ratings.

Recent news

Alliander recently announced its intention to enter into talks with interested parties about the sale of Allego, a subsidiary dedicated to the development of e-charging solutions and infrastructure. Electric driving is starting to take off. Teaming up with a new partner will put Allego in an even better position to embark on the next phase of rapid international growth. In addition, the new Energy Transition Act (*Wet Voortgang Energietransitie (VET)*) was adopted by the Dutch House of Representatives at the start of 2018. This Act contains various important arrangements for network operators, and is designed to facilitate the energy transition. The Act must still be passed by the Dutch Senate, after which it is expected to be implemented later this year.

Outlook

These are demanding times for Alliander. The economy is growing strongly and the transition to a sustainable energy system is gathering pace. Alliander is seeking to meet these twin challenges in partnership with all stakeholders. Together, we must come up with smart solutions to ensure the energy supply remains reliable, affordable and accessible for everyone.

Our employees are at the heart of this ambition. Every day they work passionately to keep the lights burning and our homes warm – today and in the sustainable tomorrow. That commitment is very special. We are extremely grateful to them for this.

Ingrid Thijssen, Mark van Lieshout

Alliander Management Board



Profile of Alliander



Profile of Alliander

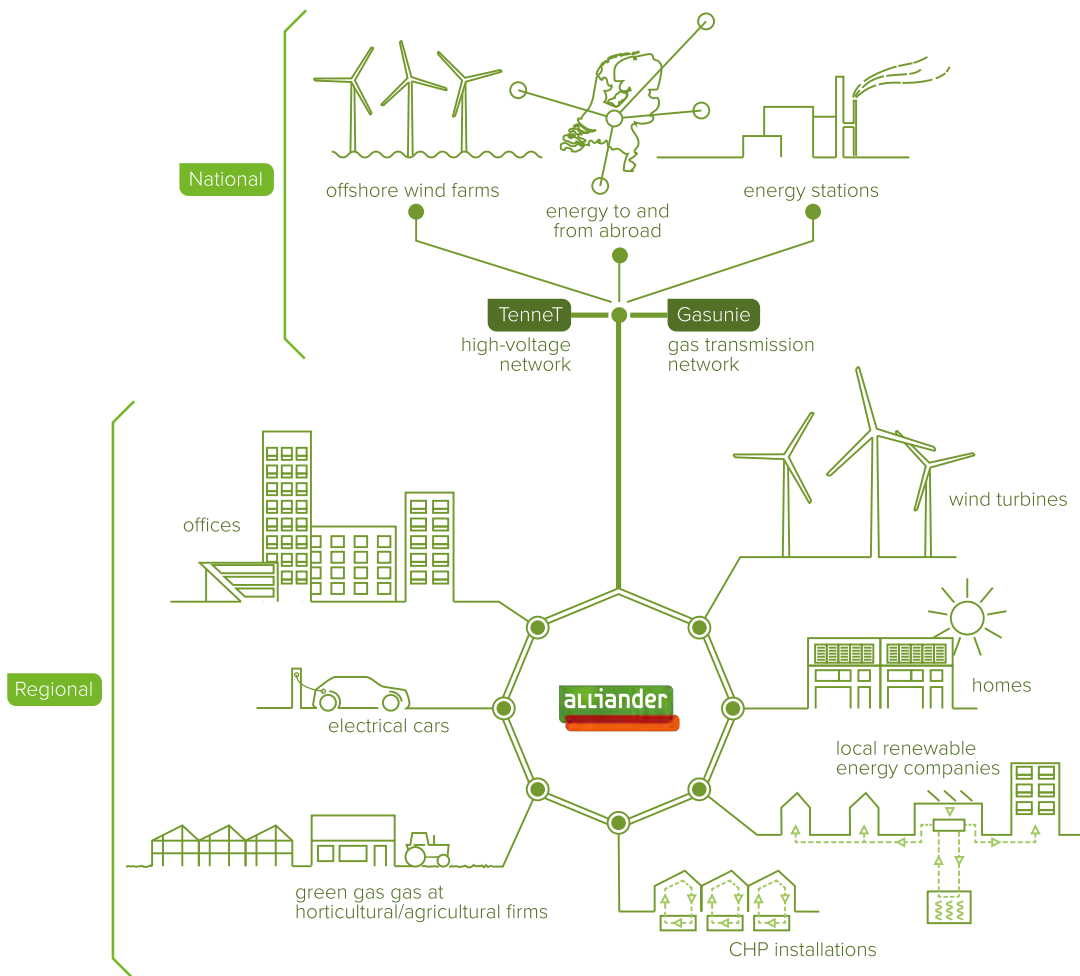
Alliander is a network company. Every day, we support over three million customers with access to energy. We secure affordable, reliable and accessible energy distribution in a large part of the Netherlands. Our shareholders are municipalities and provinces.

Our role in the energy chain

As a network company, Alliander is responsible for the regional distribution of energy, such as electricity, gas, biogas and heating. Alliander ensures that energy goes from the central or local source to the end user. For instance, from wind turbines to households or e-charging stations for vehicles.

The energy we distribute comes from diverse sources, including energy plants and wind farms, either through the national energy networks of TenneT and Gasunie or from imports. In addition, a growing number of consumers and businesses are feeding self-generated energy into our energy networks. These new supply-and-demand dynamics are transforming the role that Alliander has to play.

Alliander in the energy chain



Preparing for the future

Due to the energy transition the energy landscape is changing drastically. Natural gas is making way for local renewable generation, heating networks, biogas, hydrogen, electric transport and more widespread use of electricity. All these developments have consequences for the energy infrastructure: natural gas is being replaced by alternative forms of energy for cooking and heating and peak loads on the electricity network are increasing. New energy networks are not necessarily equally accessible for everyone in the Netherlands, and some customers are cancelling their connection and opting out of the network. As a result, the reliability, affordability and accessibility of our energy supply are under pressure.

Network companies are legally allowed to carry out ancillary activities. This also helps them to keep track of the evolving energy transition. Network companies are not permitted, however, to perform any actions or activities that are incompatible with the effective and secure operation of the network. The ancillary activities must relate to infrastructure facilities or associated activities. For this reason, Alliander is also developing new initiatives and innovative solutions aimed at minimising the impact of the energy transition on the existing networks. Alliander is committed to keeping these networks reliable and affordable and assuring equitable access to the energy infrastructure in the new sustainable energy system. An overview of these activities is included in this report as an appendix.

How we are organised

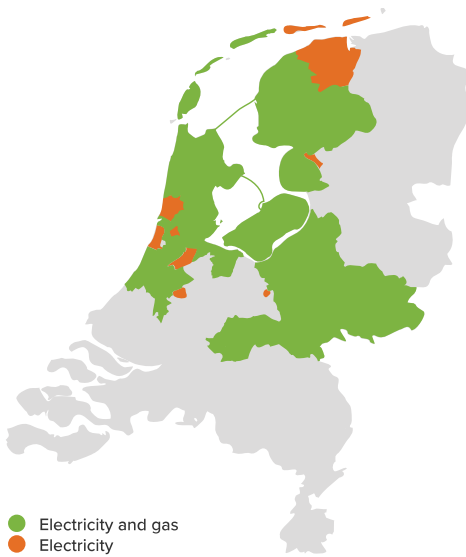
Alliander consists of a group of companies, employing about 7,100 people (FTEs) in total. Together, we stand for high-quality knowledge of energy networks, energy technology and technical innovation. The shareholders of Alliander are Dutch provinces and municipalities. Together with them and our partners, we discuss our plans for the future and offer solutions for complex energy transition issues.



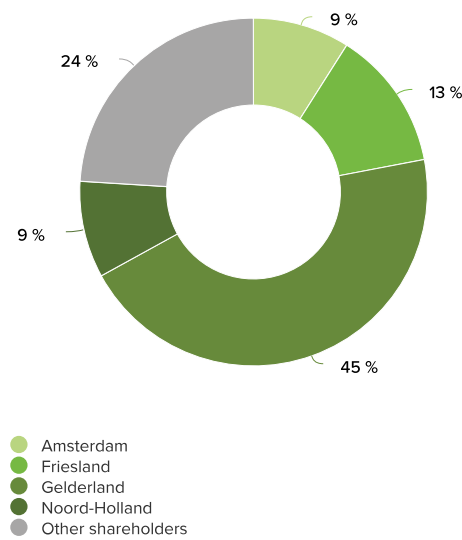
Liander

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

Service area



Shareholders



Liandon

Liandon focuses on the construction and maintenance of intelligent energy infrastructures. This company also acts as Alliander’s knowledge centre within the Dutch energy market and beyond.

Allego

Allego develops e-charging solutions and infrastructure for municipalities, businesses and transport companies. It invests in the placement and management of e-charging points and stations in the Netherlands, Belgium, Germany and the United Kingdom.

Alliander Duurzame Gebiedsontwikkeling (DGO)

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

Kenter

Kenter delivers innovative energy measurement and management solutions. In doing so, the company supports cost-aware and sustainability-minded business customers. This includes placing meters, supplying reliable measurement data and providing insight into energy consumption with online analyses. Kenter is responsible for the sale, realisation, management and maintenance of mid-voltage installations in the free domain.

Alliander Germany

Alliander AG is a small-scale service provider and partner of network operators, cities and municipalities in Germany. The company manages electricity and gas networks, public lighting and traffic lights in e.g. Berlin, North Rhine-Westphalia and Hessen. It facilitates affordable energy systems and helps communities with smart energy solutions.

Other activities

Alliander also pioneers business activities aimed at facilitating the energy transition and ensuring that the sustainable energy system is reliable, affordable and accessible. Examples are Energy Exchange Enablers, Smart Society Services, Local and Zown. More can be read about this at www.alliander.com.

2017 in figures

Number of customer connections



5.7 m

5.6 m in 2016

Number of employees



5,755

5682 in 2016

Electricity outage duration



20.9 minutes

23.3 minutes in 2016

CO₂ emissions



632 kt

824 kt in 2016

Revenue



1.7 € bn

1.6 € bn in 2016

Investments



666 € m

680 € m in 2016

Total assets



8.1 € bn

7.7 € bn in 2016

Operating profit



203 € m

282 € m in 2016

Our service area

Electricity & Gas

Electricity



Grid length



ELECTRICITY

90,000 km

90,000 km in 2016

GAS

42,000 km

42,000 km in 2016

Our mission

Energy is essential for our well-being and our prosperity. Energy enables us to heat our homes, cook, teach and communicate. It keeps our road and rail systems moving, and crucial financial systems up and running. Without energy, nothing works. We work hard to ensure people can continue to live, work and travel in the future.

Our mission

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

How we make the difference

Reliability

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

Affordability

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

Accessibility

Customers must have access to energy on equal terms. That is why we enable customers to choose their own supplier and service providers and to feed energy into the grid. We also actively help customers switch over to renewable energy alternatives.

Trends and market developments

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

What we see around us

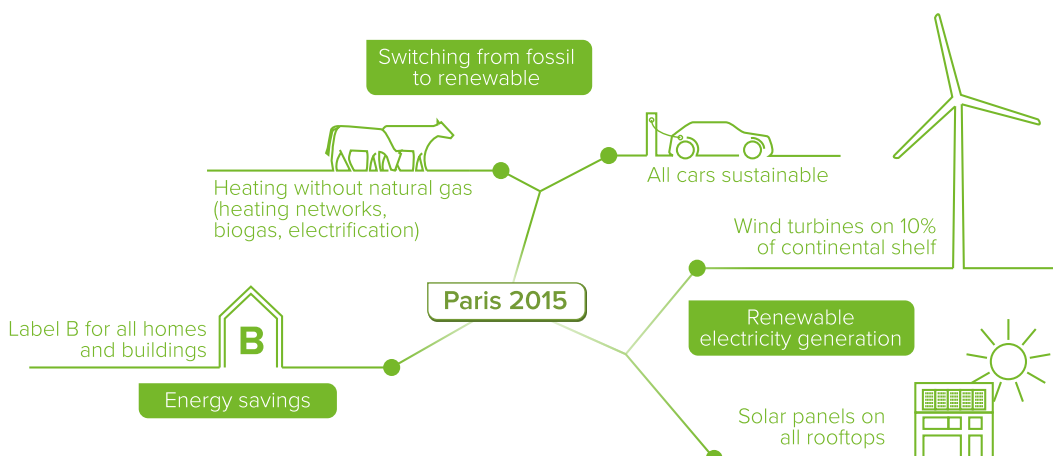
We are currently going through a period of strong economic growth. This is spurring demand for energy. New businesses are started every day and the number of homes in our service area is also growing. The Amsterdam area in particular is bustling with new developments.

Another accelerating trend concerns the use and generation of renewable energy, partly thanks to government incentives. Solar energy is becoming increasingly affordable, and there are many plans for large-scale solar parks in the regions where Alliander is active. In addition, large wind farms are being constructed and electric transport is already a familiar sight in our streets.

At the same time, initiatives to abandon fossil fuels, such as natural gas, are increasingly being taken. More and more municipalities are developing natural gas-free neighbourhoods and regulations are being prepared to abolish the statutory gas connection. The drive towards sustainability will gain further momentum in the coming years, an additional stimulus being the CO₂ reduction commitment in the coalition agreement. In the course of 2018 the cabinet will present proposals for a new national energy and climate agreement, which will contain further concrete arrangements to achieve the global climate objectives. To facilitate the transition to a sustainable energy supply, it is important for us to know well ahead of time what should be done where and when. This means that municipalities should draw up multi-year action plans at short notice.

Our challenge

To bring about the energy transition, we must be ready on time to facilitate the changeover to a sustainable energy system. In this connection we are focusing on options that are good for the customer, but also for society as a whole. These efforts will only succeed if we work in partnership with our customers and stakeholders. The first vital step is to promote energy saving measures (for instance, the insulation of homes and buildings). Alternative forms of heating, such as heating networks, biogas and electricity, will be rolled out. We must also put our network structure under the microscope. And, finally, innovative storage technologies must be developed to accommodate the increasing energy supply from renewable sources such as solar panels and wind turbines. The exact roadmap and the pace of the transition are not yet clear. So we must be flexible and have a keen eye for all developments taking place in the world around us.



From trends to strategy

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

Our strategy

Current trends and developments signal that we are on the eve of a sharp acceleration in the transition towards a more sustainable energy supply. Our stakeholders expect us to make a substantial contribution towards the new energy landscape. To this end, we have defined a clear four-pillar strategy.

1. Support customers in making choices

Customers are gaining more and more influence over the energy system. Incentives can encourage them to make choices that not only work out well for them, but also for our energy system as a whole. More specifically, we need to make it attractive for customers to buy energy in times of abundance, sell energy in times of scarcity and refrain from using the energy network at peak times. To this end, customers must be able to decide for every 15-minute or hourly time slot whether using, selling or storing energy is the best option for them. This is one reason for offering the smart meter to our customers in the coming years. But we are also working on solutions that will enable customers to exchange energy among themselves.

2. New open networks

To achieve an energy supply at the lowest possible costs to society as a whole, we must develop new infrastructures and make these accessible to everyone on equal terms. If, for instance, a local community wants to install heat pumps in every individual home, the demand for electricity in that area will rise sharply (especially on cold days). The electricity network would require a substantial upgrade to meet this increased demand. It is vital to ascertain with all stakeholders whether this is the cheapest and most sustainable solution. At local level, an alternative infrastructure (such as a heating or biogas network) may be a better option. It is crucial that this new infrastructure is open and that consumers can choose whom they get their energy from. Facilitating the energy market in this respect forms an important element of our corporate social responsibility.

3. Digitisation

Our existing electricity and gas networks are not equipped to cope with the effects of the energy transition. We are opting for digitisation to make our existing networks future-proof. ICT allows us to quickly detect and even prevent faults, make more targeted investments in the networks and offer customers the data they need to make sensible energy choices. In this way, we can often restrict the need for costly network upgrades.

4. Excellent network management as the basis

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

Objectives and results

Safety

Objectives 2017	Results 2017	Objectives 2018	Strategic objectives	Main risks ²
LTIF (lost time injury frequency) A decrease in the number of accidents leading to absenteeism, so that the LTIF is 2.0 or lower.	17 accidents leading to absenteeism occurred, resulting in an LTIF of 1.4	The objective is "0" accidents with absenteeism. ¹	We strive for a safety culture within the organisation, subject to the agreed safety parameters and with a focus on attitude and behaviour.	Safe working practices
Safety culture² Active safety culture percentage is 30% or higher.	Our score is 25%	- ³		Safety
Safety culture^{2,3} -	-	Active safety culture percentage is 100%		

Customers

Objectives 2017	Results 2017	Objectives 2018	Strategic objectives	Main risks ²
Customer satisfaction Customer satisfaction measured by the NES score is higher than 52% (consumer market) and 38% (business market). ⁴	Consumer: 47% Business: 39%	Customer convenience⁵ measured by the NES score is higher than 51% (consumer market) and 46% (business market).	Customer satisfaction in consumer and business markets rises further in the coming years.	-Realisation of work package, -cybercrime, -privacy of energy data, -required staff availability and competences, -insufficiently able to anticipate and keep up with energy transition
Electricity outage duration Maintain low outage duration. The objective is a maximum of 21 minutes. ⁶	20.9	Maintain low outage duration. The objective is a maximum of 20 minutes.	The objective is a high reliability of supply.	
Repeat outages⁷ The number of unique cable numbers with more than five interruptions is a maximum of 18.	22	The number of unique cable numbers with more than five interruptions is a maximum of 17.	The number of unique cable numbers with more than five interruptions is a maximum of 17 in the coming years.	
Top risk-mitigating projects We aim to achieve at least 90% of the milestones.	46%	- ⁸	-	
Offer smart meter We offer smart meters to 534,000 addresses.	536,000	We offer smart meters to 584,000 addresses.	By 2020 everyone has been offered a smart meter.	
Digitisation programmes⁴ In 2017, we will complete 95% of our planned digitisation programmes.	58%	- ⁹	-	

Employees

Objectives 2017	Results 2017	Objectives 2018	Strategic objectives	Main risks ²
Employee survey score Great Place to Work employee survey score of at least 75.	71	In 2018, we aim for a score of 75 in the Great Place to Work employee survey.	Be a top-class employer: an innovative and successful company where we develop future-oriented knowledge and competences.	Required staff availability and competences
Employee absenteeism Maximum absenteeism percentage of 3.9%.	4.2%	Absenteeism percentage lower than 3.9%	The maximum absenteeism percentage is 3.9% in the coming years.	
Women in leadership positions At least 27% of all leadership positions are filled by women.	24.9%	At least 27.8% of all leadership positions are filled by women.	In 2025, at least 33% of our leadership positions are filled by women.	
People at a distance from the labour market Offer 100 apprenticeships to people at a distance from the labour market.	102	Offer 100 apprenticeships to people at a distance from the labour market.	In 2020, together with our suppliers, we will offer more than 100 apprenticeships to people at a distance from the labour market.	

Shareholders and investors

Objectives 2017	Results 2017	Objectives 2018	Strategic objectives	Main risks ¹²
Retention of solid rating Maintain solid A rating profile.	S&P AA-/A-1+/stable outlook Moody's Aa2/P-1/stable outlook	Maintain solid A rating profile.	Maintain solid A rating profile. Continuously outperform the sector in terms of costs and operational excellence. Solid results compatible with the regulated permitted return.	Insufficient long-term regulatory focus, financial risks as stated in annual report
FFO/Net debt Objective: >20%	27.4%	FFO/Net debt objective: > 20%		
Interest cover Objective: > 3.5	10.2	Interest cover Objective: > 3.5		
Net debt/ (net debt + net equity) Objective: < 60%	34.4%	Net debt/ (net debt + net equity) Objective: < 60%		
Solvency Objective: > 30%	56.7%	Solvency Objective: > 30%		
Socially Responsible Procurement At least 71% of our procurement is socially responsible ⁵	70.4%	- ¹⁰	-	
CO₂ emissions from business operations CO ₂ emissions are a maximum of 672 ktonnes (according to a sector-wide calculation method)	632 kton	CO ₂ emissions are a maximum of 636 ktonnes (according to a sector-wide calculation method). ¹¹	We strive for climate-neutral operations in 2023.	
Circular procurement³ 5% of all our primary assets are purchased on the basis of circular procurement	6%	10% of all our primary assets are purchased on the basis of circular procurement	In 2020, 40% of our primary assets are purchased on the basis of circular procurement.	

1 No target is set for the LTIF KPI. This is because the number of accidents with absenteeism should be "0".

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

3 A new definition and target will be 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%.

4 From 2017, Alliander reports on customer satisfaction using the Net Effort Score (NES). For comparative purposes, the scores for 2016 have been restated according to this definition. The 2016 figure falls outside the scope of the external auditor's assurance engagement.

5 From 2018, this name will change from 'customer satisfaction' to 'customer convenience'.

6 The outage duration indicates the average length of time in minutes that our customers in the Liander area had no electricity during a one-year period. The stated outage duration for 2017 is based on low, medium and high voltage.

7 From 2017, Alliander reports the number of repeat outages based on cable number instead of post code area.

8 From 2018, 'top risk-mitigating projects' is no longer a KPI on the Alliander dashboard.

9 From 2018, 'digitisation programmes' is no longer a KPI on the Alliander dashboard.

10 From 2018, 'Socially Responsible Procurement' is no longer a KPI on the Alliander dashboard.

11 The CO₂ emission target for 2017 was recalculated according to the most recent emission factors.

12 The Risks chapter clarifies the risks in more detail.

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

Risks

The effort that Alliander puts into keeping energy reliable, affordable and accessible for everyone entails risks, including safety and financial risks. Risks occur: that is inevitable. But it is important to know and understand these risks at all times. That way, we can decide whether, and to what extent, risks need to be controlled in order to achieve our strategic objectives in a responsible manner.

Risk management

Good risk management is of vital importance for Alliander. It gives us sufficient assurance 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 can comply with all laws and regulations. The risks are discussed frequently in the Management Board and every quarter in the Supervisory Board. The possible impact on our strategic objectives and the probability of their occurrence determine what we define as our most important risks.

Explanation of the risks

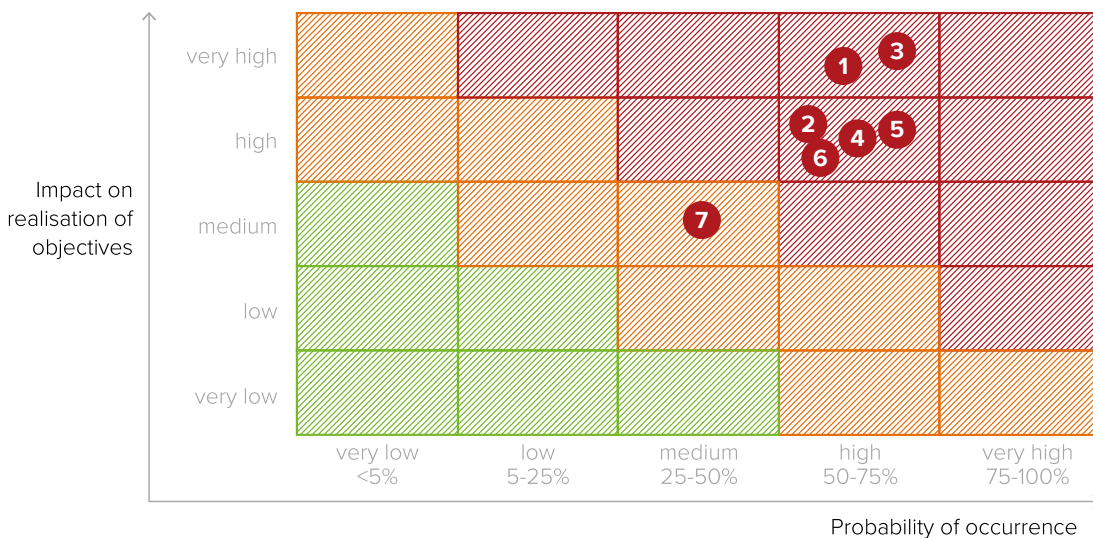
Below we have described what each risk entails, how Alliander controls this risk and what the long-term trend is (how is the risk expected to develop – with initiated and proposed measures – in the coming five years: decreasing, neutral or increasing).

decreasing: ↓ ↓

neutral: →

increasing: ↑

- 1 Safety →
- 2 Realisation of work package →
- 3 Insufficient long-term regulatory focus ↑
- 4 Cybercrime →
- 5 Privacy of energy data ↑
- 6 Required capacity and competences →
- 7 Anticipating and keeping up with the energy transition →



Risk levels

Risks can be classified in five risk levels ranging from very low to very high. The risk level depends on the probability of occurrence and the potential impact on the achievement of the objectives. Impact is expressed in financial terms and in corporate values, such as safety, quality of supply, sustainability, customer & image (reputation) and laws and regulations. In this way, we can place all our risks in a risk matrix.

Risk acceptance

The extent to which we are prepared to run risk in the realisation of our objectives differs per risk type.

- When it comes to the safety of our employees and our networks, risks must be excluded wherever possible and realistic. Our risk acceptance here is zero.
- Regarding compliance, our risk acceptance is low. We must comply with laws and regulations and want to act in accordance with internal procedures and the Alliander Code of Conduct
- For strategic risks we seek the right balance between the risks and our longer-term objectives.
- For financial risks we apply a low acceptance level. In this way, we preserve a healthy financial basis and meet financial criteria.

The Management Board and Supervisory Board of Alliander devote a lot of attention to Alliander's risks. Risk management forms part of our organisation's control and decision-making procedures. A risk management process has been set up to ensure top risks are discussed in the Management Board as well as the Supervisory Board. This discussion includes an assessment of the impact that the risks can have on our operations and reputation. Risk management is also regularly on the agenda of other executive and management layers within the company. Alliander considers it important to meet the guidelines of the revised Corporate Governance Code.

Risk awareness

Risk awareness within Alliander is generally sufficient; we have good and up-to-date insight into the uncertainties both inside and outside our business. The most important current risks for Alliander are dealt with in this annual report: the risks themselves, trends and controls are described.

Financial risks, including our credit risk, are explained in note 34 of the financial statements. An extensive discussion of all our operational asset risks can be read in the Quality and Capacity Documents that are drawn up every two years. You will find this at www.liander.nl/kcd. The Corporate Governance, Statement by the Management Board and Other information chapters explain how risk management forms an explicit part of the internal control and decision-making procedures. Scenario analyses are also used to highlight new developments. More general information about risk management can be found at www.alliander.com.

Connecting risks to strategic pillars

Primary linkage of main risks and strategy	1 customer choice first	2 open networks	3 digitisation	4 excellent network management
1. Safe working practices				•
2. Realisation of work package			•	•
3. Long-term regulatory focus	•	•	•	•
4. Cybercrime			•	•
5. Privacy of energy data	•			
6. Required capacity and competences	•	•	•	•
7. Anticipating and keeping up with impact of energy transition	•			

Explanation of the risks

Below we describe what each risk entails, how Alliander controls this risk and what the long-term trend is (how is the risk expected to develop – with initiated and proposed measures – in the coming five years: decreasing, neutral or increasing).

decreasing: ↓ ↓

neutral: →

increasing: ↑

Safety →

Probability

High

Impact

Very high

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 subcontractors. A dedicated safety programme is in place to ensure ongoing improvements.

What is the risk trend?

Neutral. The nature of the work within Alliander means that safety remains a high risk. Safety is therefore prominently on the agenda within Alliander.

Realisation of work package →

Probability

High

Impact

High

What is the risk?

Due to the current rapid economic growth, 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 the sensitivity to interruptions.

How is the risk managed?

Alliander is addressing the challenges surrounding the realisation of its work package. The approach consists of various aspects:

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

What is the risk trend?

Neutral. In view of current and future measures, the risk trend is expected to be neutral.

Insufficient long-term regulatory focus ↑

Probability

High

Impact

Very high

What is the risk?

Policy and regulations within the energy domain have an impact on our activities and profitability. Due to the energy transition policy, we notice a growing mismatch between regulations and reality. This may affect our ability to facilitate the energy transition and the continuity of Alliander.

How is the risk managed?

To continue investing in the longer term in new initiatives to facilitate the energy system of the future, the ACM must give us the scope we need to pursue this objective. We look 30 years ahead to envision the impact that the transition from fossils to renewables will have on the infrastructure we manage. We visualise the necessary regulatory adjustments and intensively discuss these with all policy-making parties. Under the auspices of Netbeheer Nederland (Association of Energy Network Operators in the Netherlands), Alliander and the other network operators are consulting with the Ministry of Economic Affairs and Climate Policy and the ACM about the required regulations, with a particular focus on the need to preserve a healthy investment climate. We are increasingly running up against regulatory obstacles that impede our efforts to facilitate the energy transition.

What is the risk trend?

Increasing

Cybercrime →

Probability

High

Impact

High

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 that a successful attack on our digitised networks jeopardises the continuity of our services. That is why we are continuing to take above-average measures to protect and safeguard vital infrastructure.

How is the risk managed?

We protect our energy and data networks and computers against attacks at various levels. We make our employees aware of cybersecurity risks, with a strong focus on prevention, detection and response. In 2017, Alliander's security function was expanded further with the creation of a fully-fledged security domain within IT. 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.

What is the risk trend?

Neutral. If no control measures were taken, the probability of this risk would increase. For this reason, the combination of evermore complex attacks and the ongoing digitisation of our networks calls for increased cyber resilience within Alliander, so that we can actively detect attacks and mitigate the impact through targeted reactions. This resilience will be expanded further in the coming years in order to keep the heightened cyber risks at an acceptable level.

Privacy of energy data ↑

Probability

High

Impact

High

What is the risk?

As part of our energy network management activities, we have access to privacy-sensitive data. This concerns e.g. 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 regulator, the Netherlands Authority for Consumers & Markets (ACM), industry organisations (the Association of Energy Network Operators 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. We are currently working on further improvements, including the introduction of a Privacy & Security Roadmap.

What is the risk trend?

Increasing. Data leaks have already occurred in the sector, and more incidents are expected in the future.

Required capacity and competences →

Probability

High

Impact

High

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 'Realisation 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 competences.

What is the risk trend?

Neutral. Thanks to the expected effects of initiated measures, the risk will remain at the same level in the coming years.

Anticipating and keeping up with the energy transition →

Probability

Medium

Impact

Medium

What is the risk?

The energy transition is accelerating. Our society is in the throes of far-reaching electrification and the use of natural gas for residential heating is being phased out. As natural gas is being phased out and the use of solar panels, wind farms, heat pumps and electric cars is becoming more widespread, many parts of the electricity network need to be rapidly upgraded. But it is difficult to predict how quickly society will embrace the new energy system. The uncertainty surrounding the energy transition scenarios (what will happen where, and at what speed?) makes it harder than ever to accurately anticipate events. If we are not sufficiently flexible to deal with the uncertainty of diverse transition scenarios and the associated investments and do not have sufficient alternatives to avoid network upgrades, we may make ill-advised investments, invest too late or too early, or develop unnecessarily complex products. Added to this, falling revenue from the gas 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 heating transition in a positive way. Innovative solutions enable us to prevent network upgrades and investments/divestments.

What is the risk trend?

Neutral. Beyond the current plan period for our strategy (the next five years), however, we see a strongly rising trend.

Our impact and value creation

As a network company, Alliander plays a significant role in the prosperity and well-being of millions of people. We work every day to secure a reliable and affordable energy supply that is accessible to everyone on equal terms. Without energy, almost everything grinds to a halt.

Our activities have multiple social impacts at community and environmental level: on the economic development of regions and stakeholders, on the emission of greenhouse gases, on the knowledge development and well-being of our employees *and* on the safety and stability of the energy system. We measure the impacts of our activities on all these fronts. The resulting insights help us to optimise our impact on society.

Our ambition

We want to increase our positive impact, for instance by increasing the well-being of customers thanks to a reliable and affordable energy supply that is accessible to everyone on equal terms. In addition, we want to minimise our negative impact such as the emission of greenhouse gases. To achieve this, we provide a balanced quantitative picture of the significance of our activities. The insight gained from our impact measurements serves several purposes: we obtain a more accurate picture of our social performance and the extent to which we achieve our objectives. Transparency about our impact offers stakeholders the possibility to make a better estimation of our contribution to social developments, and supports our decision-making on projects and activities. We are thus better able to control and improve our integrated value across the financial, ecological and social spectrum.

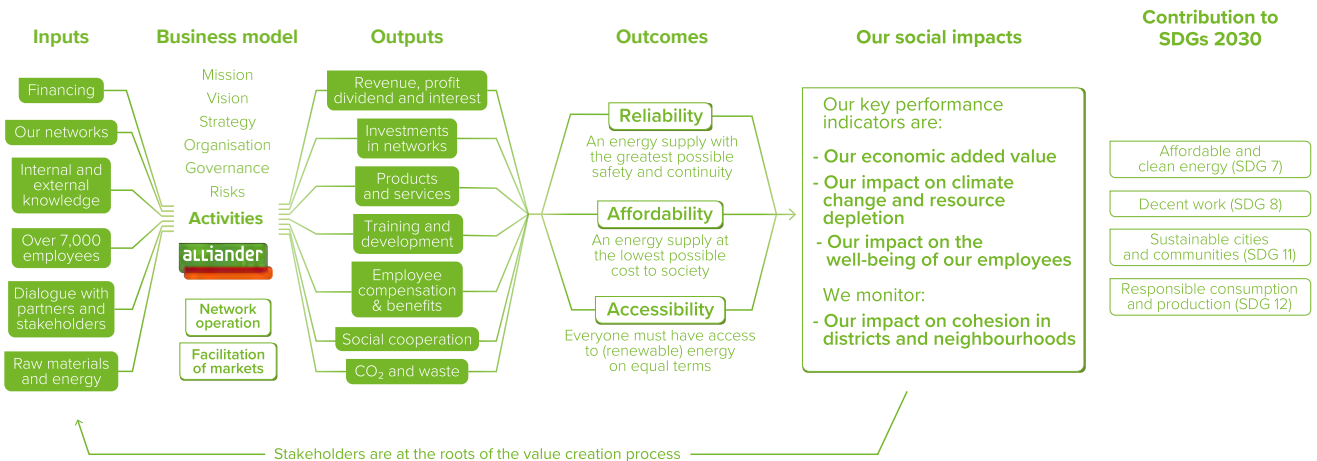
Alliander and the Sustainable Development Goals

Based on our activities, objectives and impact, we have determined the contribution we can make to the Sustainable Development Goals 2030 of the United Nations. More specifically, we are working on:

- SDG 7: Universal access to reliable and clean energy
- SDG 8: Decent work
- SDG 11: Sustainable cities and communities
- SDG 12: Responsible consumption and production chains

SDG 8, Decent work, was added as a fourth objective in 2017. We see that our activities have a relatively large impact on work, working conditions and the development of employment in the energy chain. Read more about this in the SDGs chapter.

Connectivity Model



Why quantify impact?

Reliable, affordable and sustainable energy is of great social and economic significance. Our choices for today and the future must therefore be made with great care. Alliander plays various roles, including that of network operator in the evolving (sustainable) energy system, employer and responsible corporate citizen. In all these roles, we can make a meaningful contribution to society. When assessing the social contribution of our activities, our main focus is currently on the inputs (costs) and outputs (direct consequences). Impact measurements are performed to quantify and monetise the effects resulting from our outputs. The biggest impacts concern economic value, prosperity, well-being, the environment and employment. The insights acquired in these areas cast light on both the interrelationship between impacts as well as on the biggest levers we can pull to increase our beneficial contribution to society.

Our journey in impact measurement

In 2015, we started to analyse, quantify and report on our social impact. In 2016, we took stock of the activities that Alliander undertakes and our participation in a large number of significant projects. Examples are the smart meter roll-out and the digitisation of the electricity network in the northern part of the province of Noord-Holland. In 2017, we took impact measurement further steps forward:

- We aim to increasingly express our social impact in significant units. To meet the need to compare diverse forms of impact, we quantify these in a single monetary unit (euros). This is done for the areas that are logically related to the quality of our activities both now and in the future, namely the (changeable) economic value of our infrastructure, the climate impacts in our chain, our partnerships in neighbourhoods and districts, and the well-being of our employees.
- Last year, we investigated our impact on the well-being of our employees. In this context we looked at our positive contribution as an employer to the intangible aspects of work *and* the negative impact of safety and work-related complaints.
- At project level, we performed two impact analyses. The first analysis involved the environmental impact of the heating networks completed last year. Secondly, the social impact of our employees' volunteer work that is supported by Alliander Foundation was the subject of a case study into human capital.

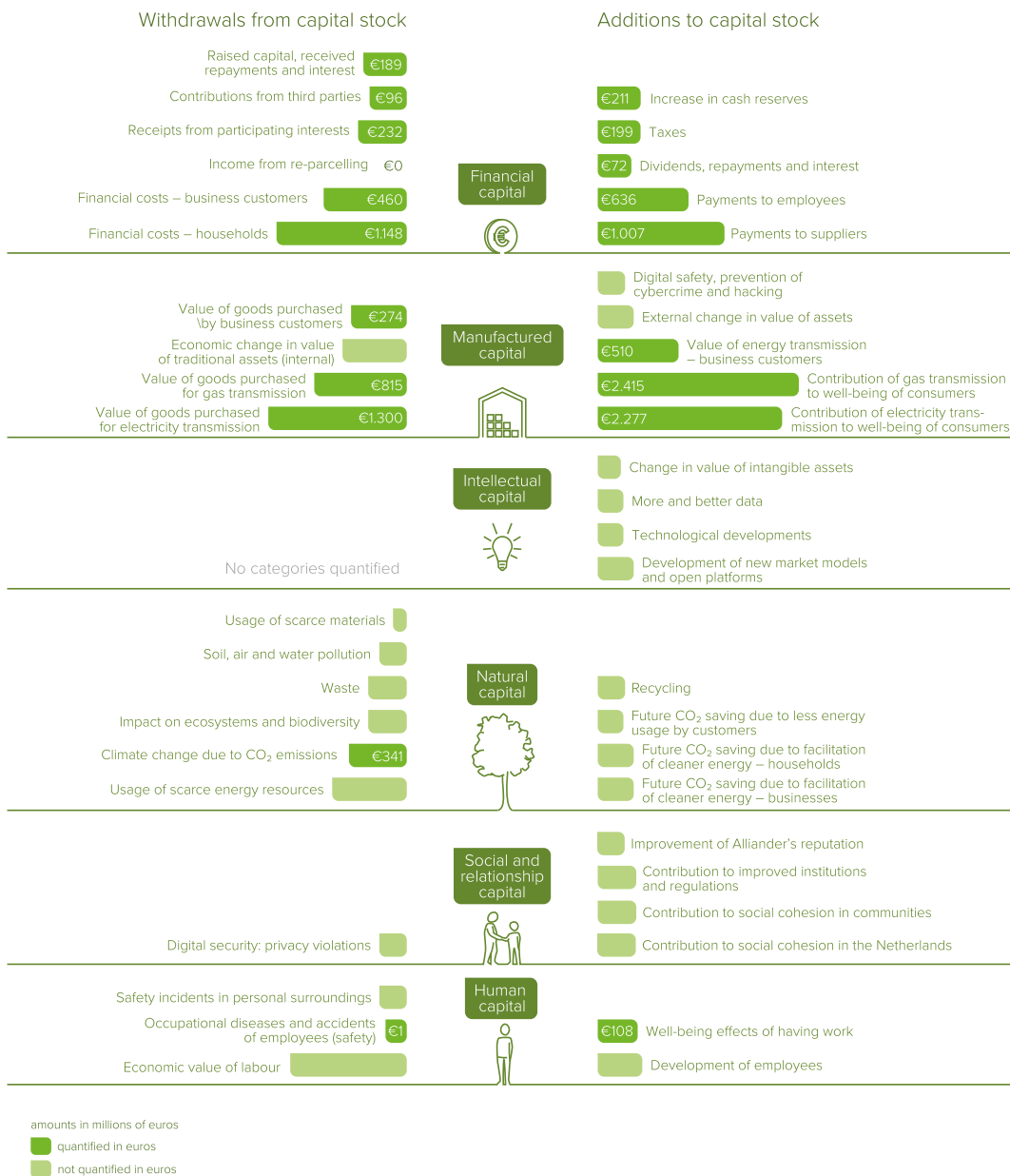
Sector model

Impact identification, quantification and monetisation is undergoing rapid development. More and more organisations want to understand and control their impact. Consistent comparison of impacts is vital to enable constructive collaboration in the energy sector. There is also a need for greater alignment of calculation methods and assumptions at both international and national level. With our impact reports we want to contribute to this development. In 2017, we worked with other network and infrastructure companies to lay the groundwork for a sector-wide impact measurement model. In the coming years, the experiences with the model will be used as input for further improvements and refinements. To this end, we have also teamed up with the Next Generation Infrastructure Platform, which carries out research into the value of infrastructure. This helps us to measure the value of our networks in the energy transition.

2017 impact at a glance

Our impact model for Alliander follows the ‘six capitals model’ of the International Integrated Reporting Council (IIRC) <http://integratedreporting.org/>. We distinguish two types of impact. On the one hand, there are impacts that fully result from the activities of Alliander. Examples are the impact of grid losses, our own emissions and the well-being of Alliander employees. On the other hand, there are large impacts that are the joint responsibility of parties in the supply chain. We call these supply chain effects. Examples are the impact of energy transport on the well-being of consumers and emissions from the use of electricity and gas in Alliander's service areas. The impact calculations as stated in our Annual Report 2016 were updated with data for 2017. The illustration below shows the relative size of Alliander's social impacts as currently identified, quantified and (partly) monetised. One new addition to the overview is the monetisation for the impacts falling within human capital (well-being and safety of work).

Most important social impacts of Alliander¹



1 For comparison purposes, the attribution of impacts across the supply chain players has been adjusted with the values from 2017.

Impact measurement results in 2017

The results of the impact calculation show the - approximate - size of our impacts for 44 indicators. The size of twenty indicators was calculated and expressed above in monetary terms¹. For comparative figures from 2016, we refer to Comparative impact figures for 2017 and 2016. For the other indicators, we made a qualitative description and an estimation based on external sources. In all cases, incidentally, the size referred to here is relative, i.e. the impact may be small at group level but large at individual level, such as with an accident. The insight into our impacts helps us to manage our activities and, increasingly, to control and improve our social performance.

Financial capital

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

Manufactured capital

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

Energy transmission has a high prosperity value for society. Alliander's share in the value for consumers amounted to € 4.7 billion in 2017, virtually unchanged from 2016. The regulated tariffs increased whereas the consumption of electricity and gas decreased. Alliander's share in the value for business customers for electricity and gas transmission rose from € 477 million to € 510 million. This stems primarily from an increase in regulated tariffs. The net calculated impact for manufactured capital, in terms of added value, remained stable in 2017 compared to 2016.

Natural capital

On balance, the climate-related impact from our activities decreased from € 363 million in 2016 to € 341 million in 2017. This is a direct result of our greening policy to reduce our own CO₂ emissions. The monetised impact of our own CO₂ footprint came to € 69 million in 2017, mainly due to our grid losses. More about this can be found in 'Our sustainability performance'. As in 2016, the biggest negative impact was caused by our position in the Dutch energy chain, which still contains a large fossil-based generation component.

Against this, there are environmental impacts - both positive and negative - that have not yet been quantified. These include the construction of sustainable heating networks and e-charging infrastructure for electric cars. In addition, our core activities such as network management make inroads into scarce resources of our planet. We have not yet been able to put an exact figure on our impact in these areas.

¹ Our measurements contain uncertainties as we sometimes have to make assumptions about future developments in the calculation. A further explanation can be found in Other information. Our website www.alliander.com contains an additional extensive explanation with full details on the criteria, starting points, assumptions and calculation methods used.

Human capital

On average, people who are in work tend to experience a greater sense of well-being than those who are unemployed. Alliander contributes to the well-being of employees by offering rewarding and fulfilling work. Work is not just about income. Immaterial factors matter too. In 2017, we calculated the Well-Being Effect of having work. This concerns the direct non-financial benefits that employees derive from having work versus unemployment. The analysis shows that immaterial factors such as appreciation, contact with colleagues and customers, and the structuring effect of work represent a positive impact value of € 108 million. This comes on top of compensation and benefits, which are included in financial capital.

On the downside, the loss of well-being and happiness due to work-related accidents and sickness is estimated at just over € 950,000. This impact value is relatively small compared to the positive impact of having work. Safety and prevention of work-related complaints are a constant high priority for Alliander. As an employer, we always aim to make a positive contribution to the well-being of our employees.

Social capital

The purpose of regulation is to ensure that everyone makes an equal contribution (socialisation of the costs). One important impact of an energy network operator is the contribution towards social cohesion in residential areas. High social cohesion ensures that local energy initiatives are broadly supported. In addition, participatory projects result in solutions that are better aligned with local needs. As local energy generation increases, so will the importance of local projects. This change occurs at various levels. New parties are collaborating in innovative partnerships to set up local sustainability and energy-saving projects. Greater local involvement in energy issues is expected to galvanise new social interaction in other areas as well. Damage resulting from the unsecured exchange of privacy-sensitive information must be avoided in order to limit the risk of negative social impacts. We want to further quantify our impact on social capital in 2018.

Intellectual capital

Alliander invests time and money in its network operations of the future: the digitisation of our networks, the use and application of data, the adoption of new business and market models for the energy transition, and alternatives for natural gas. This creates intellectual capital for Alliander and its stakeholders. This capital comprises the stock of immaterial man-created goods. New open infrastructures for electric vehicle charging stations and heating networks, for instance, do not only enhance our own knowledge and expertise but also unlock new market opportunities for other companies. The quantification and monetisation of intellectual capital calls for reliable historical data and well-considered choices. In 2018, we want to examine and explore this in more detail.

What we have learned

Collaboration with our knowledge partners has produced new insights into the consequences of our activities. Reliable network management is a source of great and constant financial and economic value. Our impacts on human capital have been quantified in more detail. We have learned that data based on research into our employees' perceptions and experiences form a good starting point for impact measurement. We have thus identified variables that influence the impact of our actions on employees.

The impact measurements continuously force us to make robust assumptions about the expected CO₂ impacts and about the relationship between the experiences of employees and their perceived well-being. This is the way to deal with uncertainties that inevitably arise when making estimates of indirect and complex impacts. The same applies to the value of well-being as an aspect of human capital. The impact measurement of Alliander Foundation showed that impact is much more than a number and that qualitative findings are also crucial for a proper understanding. The various impacts were calculated with a critical and conservative mindset, and we realise that some assumptions and criteria are still subject to debate, both within Alliander and among stakeholders outside our organisation. Our method is explained in more detail at www.jaarverslag.alliander.com. One of the next steps concerns the decision to develop a sector model for impact calculations, together with a broader group of businesses.

Our plans for 2018

Alliander continues to improve and expand its impact model, giving particular priority to the measurement of the social impacts. This reflects our growing role in districts and neighbourhoods where we work together with municipalities and housing associations to explore alternatives for natural gas heating. We have joined forces with other network operators to work out the details for a widely supported sector model. Thanks to this collaborative approach, the model can be developed faster and with more robust coefficients. We also want to use our impact model more to make better-informed choices as to new developments and investments. Finally, we will continue the dialogue with stakeholder representatives in order to improve our method.

Sustainable Development Goals

In 2015, 193 countries committed to the United Nations Sustainable Development Goals (SDGs). These goals constitute an action plan for a sustainable world free of poverty. By encouraging new ways of collaboration and collective action, this 'Agenda 2030' will promote change in a step-by-step process. Collective action by businesses, civil society organisations and governments is crucial to achieve the sustainable development goals by 2030.

Alliander and the Sustainable Development Goals: influence is key

Alliander plays an essential role in securing a safe and constant availability of energy. In addition, we are working on a more sustainable energy network and devising solutions for new market issues. Through collaboration and ongoing innovation, we continuously seek to create social value and mitigate negative impacts (see 'Our impact'). In this way, we are determined to be part of the solution.

Our contribution to the Sustainable Development Goals

For our own organisation and environment, we have analysed how Alliander can best contribute towards the achievement of the SDGs in the Netherlands. Where is our greatest impact and where can the greatest gains be realised? To this end, we carried out a comprehensive review of our operations, core activities and entire value creation process in the light of the SDGs. The aim was to ascertain which goals best match our own initiatives, objectives, strategy and stakeholder expectations. We identified a number of 'high-impact' SDGs that Alliander will focus on in the coming years.

Ambitions

As a company, we want to make our biggest contribution to SDG 7. This SDG largely coincides with our mission: access to reliable, affordable and accessible energy for all. In addition, we are contributing to more sustainable cities and communities by responding to the challenges and opportunities that the built-up environment offers for renewable energy and sustainable development at local level. The responsible consumption and production of our operating assets, infrastructure and energy based on circular and socially responsible economic principles ties in well with our ambitions for circularity, fair production and climate neutrality. In addition, we are committed to offering our employees a safe and fair working environment as well as inclusive and sustainable employment. It is our ambition to make a significant contribution towards the achievement of the above-mentioned objectives in 2030. The SDGs are integrally connected to our long-term objectives.

Our mission

Reliable,
affordable and
accessible energy
for everyone



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

sustainable living environment



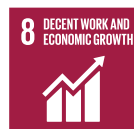
We support our customers in the built environment with their transition to a sustainable energy system

circular economy



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

decent and safe work



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

Ambitions for the coming years

Mindful of the ultimate objective in 2030, we determine what we can contribute in a step-by-step process. Our main focus this year will be to understand the SDGs, set priorities and raise internal awareness of these goals. After establishing what we can contribute and the potential impact, we define and implement our long-term objectives as an integral part of our operations. In doing so, our challenge is to consistently integrate the SDGs into our efforts to realise Alliander's long-term objectives. The SDGs thus serve as a key policy-making and control instrument. We will report on our progress in this area in the coming years.

Our results in 2017



Customers

Our customers count on us for a flawless energy supply. To switch on the lights, turn on the heating, charge their phone, shop online and drive safely. At any time, and wherever they are. And our customers who generate or feed in energy also expect a good infrastructure and service.

This chapter is about what we do for our customers. They identified the following subjects as the most important to read about in the annual report: reliability of supply, innovation, role of energy generation, smart networks and data technology, regulation and tariffs, safe infrastructure and customer satisfaction. All these subjects are covered in this section of the annual report.

Objectives and results related to customers

Customer satisfaction

OBJECTIVE 2017

Customer satisfaction measured by NES score above 52% (Consumers) and 38% (Business).

RESULT 2017
CONSUMERS

47 %

51 % in 2016

RESULT 2017
BUSINESS

39 %

36 % in 2016

Electricity outage duration

OBJECTIVE 2017

21.0 minutes

RESULT 2017

20.9 minutes

23.3 minutes in 2016

Digitisation programmes

OBJECTIVE 2017

95 % minimum

RESULT 2017

58 %

8 % in 2016

Realisation of smart meter deadline

OBJECTIVE 2017

534,000
minimum

RESULT 2017

536,000

428,000 in 2016

Cable numbers with > 5 interruptions

OBJECTIVE 2017

18 maximum

RESULT 2017

22

17 in 2016

Top risk-mitigating projects

OBJECTIVE 2017

90 % minimum

RESULT 2017

46 %

48 % in 2016

Energy must be available at all times, and be accessible to everyone on equal terms. This is what we stand for.

Alliander has over three million customers and ensures they can light and heat their homes at all times. Companies also count on us. We can only live up to these expectations if we align our services to the demands and needs of our customers. And if we excel in reliability and convenience.

Economic growth is fuelling customer demand

The Dutch economy is booming. In 2017, this sparked a sharp surge in demand for traditional connections to our network. Moreover, the energy transition is expected to spur a strong rise in total local generation capacity in the coming years. Many projects have been scheduled for the next five years, greatly expanding the energy supply from wind farms and solar parks in particular. These developments drove our company into action as well. We took steps to reduce the outage duration, accelerate the roll-out of the smart meter and play a facilitating role in the energy transition. However, connecting customers on time is a challenge and customer convenience is not improving rapidly enough. It is therefore imperative for us to increase our operational effectiveness. This means: being clear about who does what, simplifying processes and improving our internal and external collaboration to achieve the desired results. Better cooperation with local parties, in particular, is vital.

Technical skills shortage is an operational bottleneck

Despite our initiatives to enhance our planning efficiency and recruit additional staff, we are still unable to get the work done within the targeted timelines. That is a major concern to us, and we are therefore energetically in search of new colleagues who want to contribute to the energy supply of today and tomorrow. The shortage of technical skills in the labour market makes this a big challenge and poses a threat to the progress of the energy transition. Accordingly, we are also putting in place smart measures to raise our production to a structurally higher level.

Our approach

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

Pillar 1: support customers in making choices

Customers are gaining more and more influence over the energy system. That is why we are offering them incentives to make choices that are not just good for them, but also for our energy system as a whole. More specifically, we need to make it attractive for customers to buy energy in times of abundance, sell energy in times of scarcity and refrain from using the energy network at peak times.

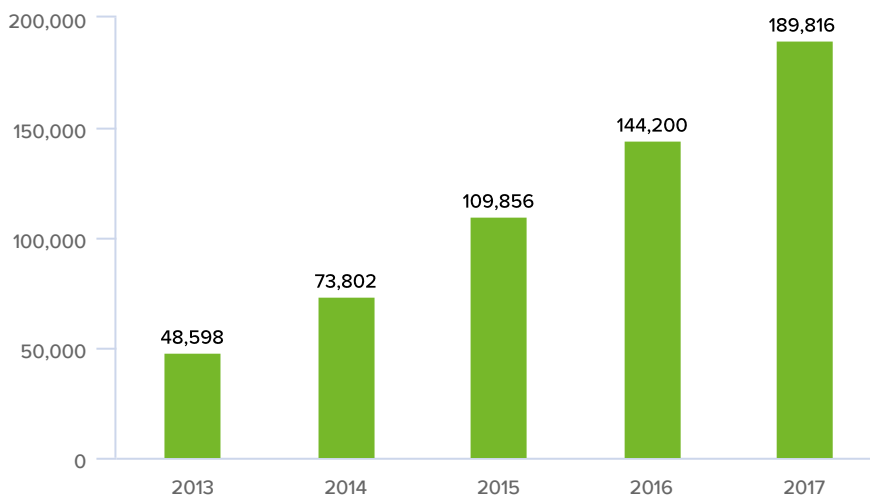
Alliander's role in energy generation and storage

It is Alliander's task to keep the infrastructure reliable for everyone at the lowest possible costs, and simultaneously to optimise the energy system to accommodate local energy initiatives. On our journey towards the new energy system based on fluctuating sources such as solar and wind, local generation and storage will play a prominent role. The emergence of new storage technologies - based on electric vehicle batteries, for instance - is therefore a vital development. Alliander does not produce energy itself, but connects supply and demand and helps to make the best social choices for advancing the new energy system. In this context, we participate in pilots together with other parties, such as suppliers and consumers, in order to learn practical lessons. One such pilot is the neighbourhood battery in Rijsenhout.

Rising number of renewable generation customers

In the past years, we have seen a steady increase in the number of customers generating their own renewable energy. This trend continued in 2017, with the number of registered connections with an active feed-in installation in our service area jumping from 144,200 to 189,816 (+ 32%).

Customers with renewable generation



● Number of feed-in installations at our customers

As more and more customers generate renewable energy, its share in the overall energy supply constantly grows in the areas where Alliander is active. The wind turbines and solar panels in the provinces of Gelderland, Flevoland, Noord-Holland, Friesland and parts of Zuid-Holland supply sufficient energy to provide some two million households with renewable electricity. At the end of 2017, the share of renewable generation in the areas where Alliander is active amounted to:

- Solar energy: electricity for 210,000 households
- Combined heat and power (CHP): electricity for 840,000 households
- Wind energy: electricity for 865,000 households
- 3,174 e-charging stations for electric cars
- Green gas: gas for 16,000 households

The increased generation of local renewable wind and solar power has a growing impact on our electricity network. It can lead to power peaks that local networks are not always able to handle. The availability of electricity is also less predictable, as solar and wind energy is prone to fluctuations. Our challenge is to better match supply and demand without additional investments and work.

Dilemma: who pays the bill for removing gas connections?

In the coming decades, some seven million homes must be weaned off natural gas. Large-scale innovations always follow the same pattern: there are early adopters, followers and late adopters. But sooner or later, millions of households will be confronted with these additional charges. Households that have their gas connection removed now pay the full cost themselves. In the year under review, there was a debate about who should pay the bill for this operation. Some argue that the costs should be spread across all Dutch households. Network operators explicitly encourage households to save CO₂ emissions. We want to make this as cheap and easy as possible, on the understanding that the consumer pays. If we, as a society, want to adapt the rules, we must do so with a view to the future. This, after all, is not just about the costs for a small group, but the need to keep energy affordable for millions of people living in the Netherlands in the decades ahead. During the parliamentary debate about the Energy Transition Bill (VET), a proposal to remove gas connections free of charge was rejected.

Neighbourhood battery in Rijsenhout

Flexibility is central to the energy transition. To test this aspect, we take part in multiple pilots. One such pilot concerned the placement of the first-ever neighbourhood battery in the Netherlands. By using local renewable energy first before resorting to more distant sources, neighbourhoods can increasingly meet their own energy demand. The battery can also provide a solution for the growing energy surplus from residential solar panels. By storing this renewable energy in a battery for later use, the load on the electricity network can be reduced. Batteries may thus be a good alternative for laying thicker cables. Together with Tegenstroom, Lyv Smart Living and Liander, 35 households in the village of Rijsenhout (Haarlemmermeer) are testing this unique battery. We, as the network operator, are particularly interested in finding out whether the battery can lower the burden on the local electricity network.

Participants in the Rijsenhout pilot will share the neighbourhood battery for a year. With the aid of smart meters, the in-house Lyv energy management system records each household's energy surplus and stores it in the battery for later use. Data from the smart meter help to determine how the solar energy can be used as efficiently as possible. Based on the household's actual consumption and the amount of generated energy, the system determines whether energy can best be used immediately, kept in storage or fed into the network. And when a neighbourhood resident needs electricity, the system supplies his remaining portion of energy back to their home. The app-based energy management system helps residents save energy and records the surpluses when more solar energy is generated than consumed. In this way, residents make maximum use of their own energy and reduce the burden on the network.

Energy exchange platform

In 2017, Alliander's subsidiary EXE launched the first independent transaction platform for the direct exchange of electricity between generators and consumers. In the new renewable energy system, generators and consumers increasingly want to be in control of their own energy capacity. This calls for a platform that can process decentralised transactions. The new transaction platform, named ENTRNCE, gives commercial generators and consumers, service providers and energy suppliers access to the market. ENTRNCE thus brings the decentralised energy market of the future a step closer.

Amsterdam is preparing for the cars of the future

Another flexibilisation pilot took place in Amsterdam. In 2017, the municipality of Amsterdam carried out a successful trial with a new method for charging e-vehicles, where the charging speed is adjusted to the supply and demand on the electricity network. The charging speed is faster in off-peak hours and slightly slower at peak times. Besides preparing the city for the next generation of electric cars with larger batteries, this innovative charging method also paves the way for the more efficient use of renewable energy in the future. Flexible charging – also known as smart charging – not only prevents extreme peak loads on the energy network, but also opens up opportunities for optimal utilisation of renewable energy in the future. For instance, solar energy generated during the day can be stored directly in the batteries of electric cars. Our e-charging stations pilot will continue in 2018. The pilot comprises 52 public charging posts, each with two charging points (i.e. 104 charging points), in four Amsterdam districts (Centre, West, New West and South). The charging data collected by these posts is compared with the data from 50 standard e-charging stations that are used as a reference. Based on historical data, we expect 1,000 to 1,500 unique users to fill up their cars at these charging points.

Smart meter: the progress so far

One crucial link in the creation of a more intelligent infrastructure is the smart meter. In 2017, the smart meter offering was accelerated to 2,500 addresses per day. We thus achieved our target of 536,000 addresses for 2017. The smart meter helps customers make their own energy choices. The aim is to offer all our customers a smart meter by 2020. We are doing this in close cooperation with our partners, such as contractors.

The smart meter attracted a lot of media publicity in 2017. A number of smart gas meters placed in the period from June to August 2016 no longer meet the specifications. Though these meters are safe, the network operators decided to replace this type. The replacement operation will be completed in 2018.

Pillar 2: new open networks

Alternative infrastructures are increasingly being set up and Alliander is investing in their development. Examples are heating networks and microgrids. It is crucial that the new infrastructure is accessible ("open") to everyone, both customers and suppliers, on equal terms and that the user is free to select the supplier.

First public DC station in Lelystad

Sustainable energy facilities such as electric transport, heat pumps and solar panels typically use direct current (DC). DC must be converted into alternating current before being fed into the power network. To save the energy lost in this process, Alliander is working on a solution for a direct connection between these facilities and a DC network. In Lelystad we installed the first-ever public DC station in Europe. The station constitutes the heart of the future DC network for the Lelystad Airport Businesspark and the new Lelystad Airport. The station will offer connected businesses an efficient supply for their DC-powered operational installations and facilities. In addition, the connected companies can generate and share power without relying on the traditional alternating current network. Alliander wants to use this network to examine whether a public DC network can supplement the traditional alternating current network and the role this can play in the transition to a sustainable energy system.

Residual heating

Alliander, the municipality of Zaanstad, housing associations and the energy supplier have signed a letter of intent to develop a heating network in Zaandam-Oost. The network uses residual heating that is released during the production process of companies such as the AEB waste and energy recycling company in Amsterdam and possibly a small-scale biomass plant to be built near the ZMC (Zaandam Medical Centre).

Alliander has also teamed up with the municipality of Arnhem to encourage the use of residual heating. In 2017, we worked on the plans for a new northern branch of the local heating network at Arnhem. These new plans provide for the transportation of residual heating through a new heating transport pipeline from the waste processing centre at Duiven to customers in Arnhem-Noord. Thanks to the collaborative structure, multiple suppliers will be able to supply heating from the northern branch (Arnhem-Noordtak) to customers located along the route.

The impact of heating networks and biogas mains

Interest in the local generation and distribution of renewable energy is on the rise. This is partly due to the thriving economy, but is also being driven by the Paris climate agreements. Alliander DGO is seeking to facilitate this expansion through the realisation of open networks for the transmission and distribution of renewable and local energy, including heating and green gas. To achieve this aim, this subsidiary is working with other stakeholders such as companies, public authorities and end users.

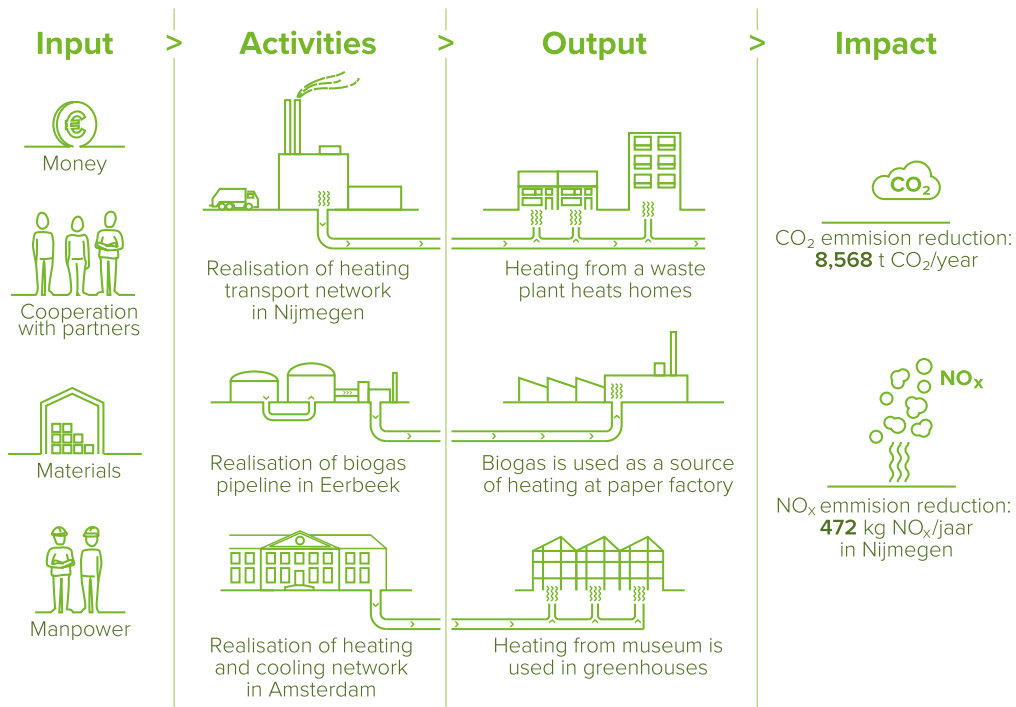
Projects

In 2017, three projects developed by DGO were operational. In Nijmegen 4,800 homes were connected to a heating network. This network transports heating from a nearby waste processing centre to homes, thus eliminating the need for a gas-fired boiler.

In Eerbeek, a biogas pipeline was constructed between the IWE water treatment plant and the DS Smith paper mill. During the purification of process water, biogas is extracted from the organic material. This solution enables the factory to use biogas from the IWE location instead of natural gas. In addition, the Hermitage Museum and Botanical Garden in Amsterdam are connected to each other with a thermal energy storage installation. The network makes it possible to use heating from the Hermitage Museum in the greenhouses of the Botanical Garden. With this solution, less natural gas is used for heating and the museum requires less electricity for cooling.

Impact calculation

Each of the three projects has an impact on diverse types of capital, including the development of new knowledge and expertise and impact on local residents. These projects make a considerable contribution towards the reduction of air pollution and greenhouse gas emissions. For this reason, the 2017 impact measurement of these projects was calculated on the basis of natural capital. The environmental impact of DGO projects in 2017 is shown in the illustration below.

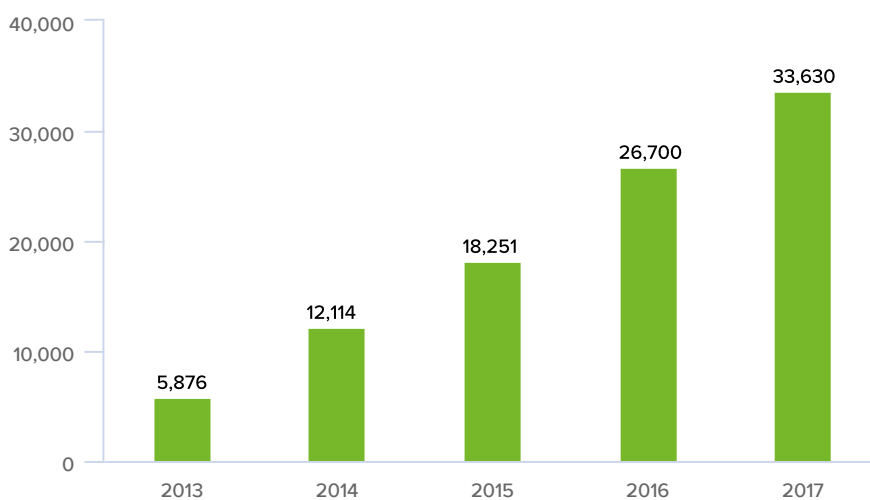


Explanation: the impact of the Nijmegen heating transmission network was calculated on the basis of 2016 figures. The CO₂ reduction for 2017 is expected to be higher due to an increase in the number of connected homes.

Electric transport

The year 2017 saw the definitive breakthrough of electric transport. The Dutch coalition agreement states that all new cars must be emission-free by 2030. Virtually all car manufacturers are expected to launch electric-only vehicles in the coming years. A range above 300 km will become standard, making electric cars an attractive alternative for consumers. The number of electric-only cars increased by some 8,000 last year. To advance the development of e-transport, it is crucial to discover how an e-charging infrastructure can be fitted in, making optimal use of and without overloading the existing electricity networks (see box: Amsterdam pilot), while also making socially responsible choices. Through our subsidiary Allego, we are working on an open e-charging infrastructure that is accessible to everyone. In 2017, Allego expanded the e-charging network to 5,000 charging points in the Netherlands and 7,000 internationally. This makes the company a major supplier of rapid e-charging solutions for electric vehicles. In addition, Allego is developing services and products for electric transport in partnership with Shell, BMW and Microsoft. Early in 2018, Alliander announced that preparations were underway for the sale of Allego.

Number of e-charging stations in the Netherlands



● Number of public and semi-public charging stations in the Netherlands

Smart e-charging plaza in Arnhem

Arnhem is the first municipality in the Netherlands to realise a large-scale smart e-charging plaza for public use. Located at the Trans car park, this e-charging plaza can accommodate 16 vehicles simultaneously and is equipped with software to adjust the vehicle's electricity demand to the available power supply. E-drivers can use an app to see whether charging points are available and to charge their car, without requiring a special e-charging card.

Electric car as neighbourhood battery

In November 2017, 'Vehicle to Grid' e-charging stations were placed in Amsterdam as part of the City-Zen programme. Electric neighbourhood vans now form an integral part of the electricity and flexibility network.

Vehicle to Grid is a new e-charging technology for electric cars. As well as charging the vehicle, this technology can also feed electricity into the network. With the feed-in function we can respond to energy generation peaks and meet spikes in local demand for electricity. In this way the car acts both as a means of transport and as a home-based or neighbourhood battery.

Through the City-Zen programme Alliander is helping to create the city of the future. We are exploring how innovative technologies and applications can contribute to the sustainability objectives of a large city like Amsterdam. We look at the effects that solar panels, electric cars and home batteries have on the energy network. Together with residents, the municipality and all other local stakeholders, we are driving innovation forward in a district in Amsterdam. Vehicle to Grid may help us achieve a better balance between solar demand and supply. In this way, renewable energy can be used optimally without the energy network being overloaded.

'The heating transition cannot wait'



Jan van der Meer is heating coordinator in the Arnhem-Nijmegen region. His job is to help municipalities drive the energy transition, with a strong focus on renewable heating. The former councillor of Nijmegen says speed is of the essence: "We have 32 years to get rid of natural gas. That may sound like plenty of time, but it isn't."

The new cabinet is stepping up its energy transition efforts. And not before time, according to Van der Meer. "This year, all sorts of agreements will be concluded such as a new energy agreement and an administrative agreement for the energy transition. The province must take the lead." Concrete plans for financial contributions from the government must be put forward, he says, particularly for the heating transition. Despite the urgency of the challenge, he has not yet seen a single fully-fledged neighbourhood plan for ditching natural gas and going all-electric.

"One neighbourhood in Nijmegen, Hengstdal, has tentatively outlined a strategy for gradually making homes natural gas-free," he adds. "Households are being advised to continue investing in non-regret insulation measures and in 2030 - when the natural gas network must be replaced - everyone in that neighbourhood must be heat pump-ready."

This suggests that the heating transition is something for the long haul, but it isn't. Van der Meer does some calculations: "We have 32 years to get rid of natural gas in the built-up environment. Assuming that it will take eight years to wean a neighbourhood off natural gas, a city like Nijmegen will have to do two districts a year. This means that the council must designate eight neighbourhoods for the transition during its next term. In short, we must get this area-based approach underway very soon." Cities that are fortunate enough to have a heating source and a collective heating network, such as Arnhem and Nijmegen, can go faster. Together with housing associations, these cities can start looking for districts and neighbourhoods that are suitable for connection to the heating network. "These are typically areas with lots of high-rise and housing association ownership. Note incidentally that when housing associations decide they want the heating network in a district, they also give households in that district a choice: collective heating or all-electric. Arnhem already has a heating network covering most of the city. Now, it is just a question of expanding."

Van der Meer sees that housing associations and households are inclined to put off investments because they expect better or cheaper solutions to become available at some later time. "Over the next 32 years, streets everywhere will be opened up: to remove gas networks, place heating networks and upgrade electricity networks. We won't be able to do all that in the final ten years. Waiting must not be rewarded. The government should come up with an incentive, such as a subsidy to reward first-adopter districts. And they shouldn't skimp either – the offer they make is often just not quite enough". Alliander is a logical partner for municipalities, says Van der Meer. "Alliander must indicate where the natural gas networks need to be replaced in the coming years. The municipality must then determine the strategy, together with the network operator, housing associations and residents. So Alliander is a key player here and should tackle this role even more vigorously. The construction of gas networks in new-build areas should really be a big no-no, because it just makes the problem worse and will saddle residents with high costs somewhere down the line."

Pillar 3: digitisation

Advancing ICT is rapidly unlocking new digital opportunities for operating our networks. By installing smart meters, sensors, remote control switches and a telecom network, we can quickly detect and even prevent interruptions, make more targeted investments in the networks and offer customers data to make energy choices easier for them. Besides creating advantages for our customers, this reduces the need for a costly network upgrade, the bill for which should be paid by society at large. Alliander is therefore opting for far-reaching digitisation of its networks, including the accompanying innovations.

Digitisation programme under pressure

We are still falling short of our digitisation ambitions. We had set ambitious digitisation targets for the year under review, precisely because this is a crucial development. One target was to complete 95% of our digitisation programmes, but we only realised 58%. Unfortunately, capacity problems are thwarting our efforts to get all the work done. Solving safety problems and connecting customers is a bigger priority than the digitisation programme.

Smart networks and data technology

Roll-out of intelligent medium-voltage station and FlexOVL

Repairing faults faster and providing customers with better information when faults occur: these are some of the advantages of intelligent medium-voltage stations (iMSR) in our network. In the meantime, over 2,500 FlexOVLs and 155 iMSRs have been placed. This roll-out is to be continued in the coming years and to be expanded to the other regions in the Liander service area. We have also expanded FlexOVL, the new public lighting switch system, via our own network. Operating our own network gives us more control over availability and reliability. And the costs are lower too.

Digital tools

Digitisation can also assist the safer, faster or more efficient performance of engineering work. IntellEvent, for instance, is smart technology that helps to solve faults in the medium-voltage station. When interruptions occur, the tool combines all sorts of data from multiple systems and identifies the cable or medium-voltage station where the fault is probably located.

Digitisation also helps us to gather and rapidly interpret large quantities of data. This enables us to optimise and automate our business operations through e.g. online accounting and data handling. To give one example, only a few months after we introduced e-invoicing, we found that the ease and speed with which customers were able to pay resulted in a much shorter payment term.

Cybersecurity

Digitisation offers many advantages, but also creates risks. The fight against cybercrime is never-ending and requires permanent vigilance and training. Alliander therefore exercises caution in reporting on this subject. For more information, see the Risks chapter.

Privacy and data security

The smart meter data help us to facilitate the energy transition and offer a reliable service to our customers. Our customers must be able to trust us to use their personal details with great care. Privacy is therefore an important focus area for Liander. Our organisation, processes and systems all meet high privacy standards, as is testified by the Privacy Audit Proof Quality Label that we have received every year from an independent party since 2011. Apart from the customer's privacy, it is also important to verify that the data we receive from the smart meter is safely processed. We extensively test the security of our smart meters and our IT systems that process the data from the smart meters. The outcomes of these tests are used to take preventive measures against possible system vulnerabilities that hackers could take advantage of. As goes without saying, we also comply with all privacy laws. Employees are made aware of the importance of handling personal details with the utmost care and are trained to act accordingly. We at Liander work to safeguard privacy across the board and ensure the safe handling of personal and customer data. This contributes to our customers' trust in Liander in general and the acceptance of the smart meter in particular.

Pillar 4: excellent network management is the basis

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

Infrastructure maintenance

In 2017, we spent € 816 million on the maintenance, replacement and construction of our energy infrastructure. The investments in the networks are tailored to the priorities, approach or characteristics of each region. An overview of our investments in the energy networks in each region is available on our website.

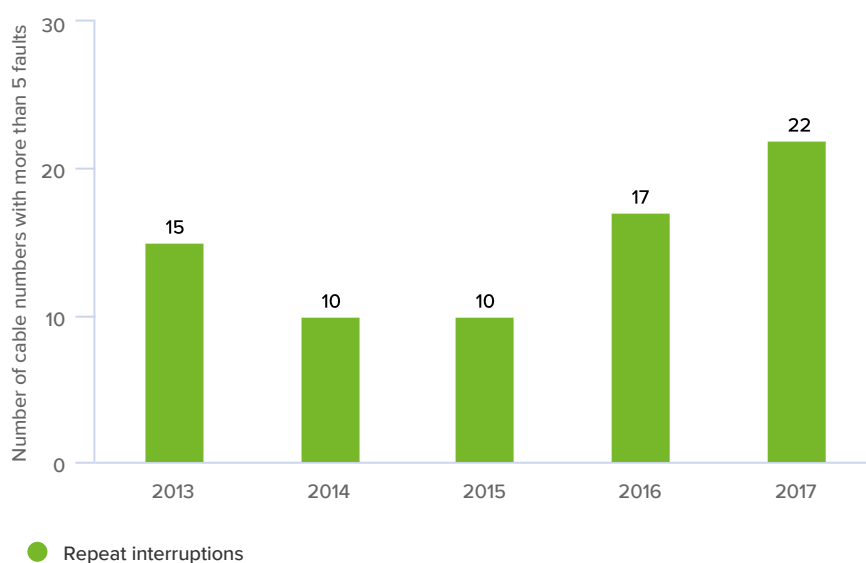
Reliability of supply of the energy networks

Annual electricity outage duration



Investments and maintenance are designed to maintain and improve the reliability of our energy supply. In 2017, customers were without electricity for 21 minutes (2016: 23.3 minutes) on average. Excluding the helicopter accident in Culemborg, the outage duration fell to an all-time low. This was achieved despite increased network maintenance owing to the introduction of digital tooling and improved operational control. Cable numbers with more than five interruptions per year exceeded the target, namely 22 versus a maximum of 18, partly because other objectives were given priority.

Repeat outages¹



¹ From 2017, Alliander reports the number of repeat outages based on cable number instead of post code area. The figures for 2013 to 2016 are still based on post code area.

In case of major outages, an internal crisis organisation is mobilised. Within this organisation, staff members of various hierarchical levels work on-call shifts. Depending on the nature and scale of the incident, we set up a case and/or investigation team to assist and ensure the completion of any internal and/or external investigations. All major incidents are evaluated to identify possible improvements. In 2017, three legal procedures were in progress in relation to the health & safety of customers or third parties.

Dilemma: connecting local generation and consumption

Large-scale renewable generation (wind turbines, solar parks) is increasingly taking place close to end users. By giving local users direct access to locally generated energy, we save on investments in upgrading the underlying infrastructure. Under the current rules, a large-scale local generation facility must be connected to a nearby switching station. This means that the generated energy must first be transported to the substation further down the line before being routed back through the distribution network to the end user in the area where the energy was generated.

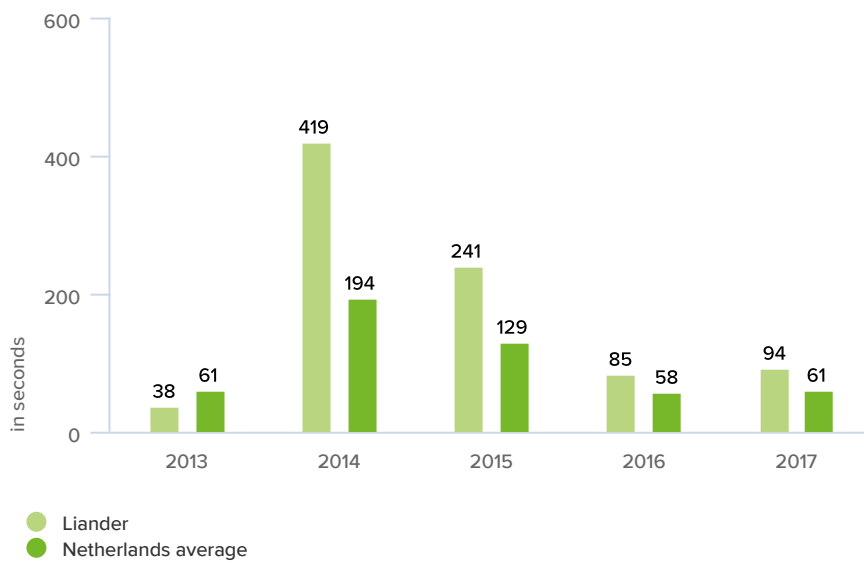
More Smart Cable Guards

To increase the reliability of supply of the energy networks and facilitate safer and more successful inspections, innovation is an ongoing and multi-faceted process within Alliander. One such innovation is the Smart Cable Guard (SCG), a system that detects and localises weaknesses in the underground network, ideally before these lead to interruptions. A single measurement is sufficient to check a section of several kilometres, with defects being localised within an accuracy of several metres. This saves time and costs spent on repairs to the electricity supply. In 2017, Alliander purchased 266 additional SCGs in order to locate and prevent interruptions, bringing the total to 400. SCG clocked up 25 successful results in 2017. In 13 cases, SCG correctly pinpointed the defective component that had caused an energy interruption. In 12 cases, an energy interruption was pre-empted. SCG thus prevented the estimated loss of 1,410,000 usage minutes.

Deployment of drones for inspection

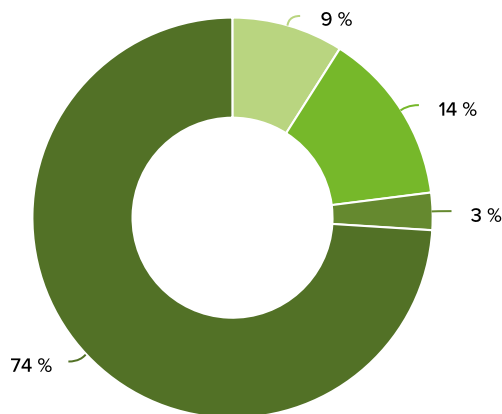
The second innovation concerns drone-based inspections. Alliander is the first network company to obtain permission to fly with drones. The drone inspects high-voltage masts, so no one needs to climb up the mast. Moreover, the line does not need to be switched off during the inspection, thus reducing the risk of interruptions. The LianDrone meets all requirements set by the Human Environment and Transport Inspectorate (*Inspectie Leefomgeving en Transport – ILT*) for working with drones.

Annual gas outage duration



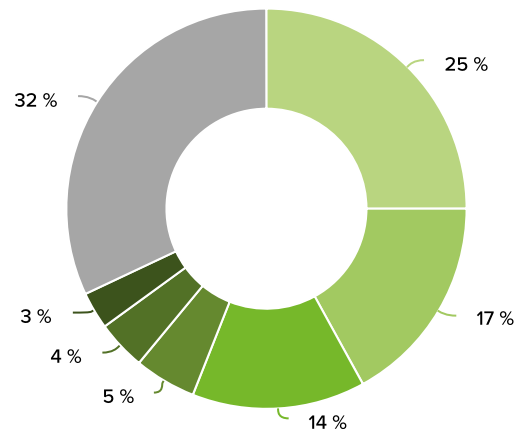
In 2017, households were without gas for 94 seconds on average.

Causes of gas outage duration



- Aging, corrosion
- Excavation work
- Soil movement
- Other

Causes of electricity outage duration



- Aging, wear
- Excavation work
- Internal defect
- Security
- Manufacturer
- Soil movement
- Other

Network tariffs

Towards the end of 2017, the energy market regulator ACM published the tariffs for all network operators. The network tariff for most households in Alliander's service areas will rise by about € 2.60 per month. The tariffs for large users will also increase from 2018, depending on their consumption. The increase in the tariffs is in line with the rise in costs in the sector. Growing investments in smarter infrastructure is another reason for the tariff increase.

Abolition of sufferance tax

Liander's tariffs for electricity transport and connection services are generally higher than those of other network operators. The reason is that Liander's service area comprises many more municipalities that levy sufferance tax. Liander pays this levy for the electricity cables and gas mains lying in the municipality's land. In 2017, this cost Alliander almost € 137 million. The sufferance tax costs are passed on in the network operator's tariffs. In 2017, the Dutch House of Representatives and Senate approved the abolition of sufferance tax on electricity and gas infrastructure.

Our results in the regions

Gelderland

Major solar, wind and green gas initiatives are underway in Gelderland. In 2017, we worked on solar parks – including one on water – and started a capacity expansion project at Uift to connect the Den Tol wind farm at Netterden. In Huissen we managed to keep the municipality natural-gas free for an extended period of time by feeding green gas into the network. And the Poederoyen station in Bommelerwaard was completed to meet the growing energy demand from market gardeners. The preparations for extending the A15 to the A12 have started.

Noord-Holland

The Haarlemmermeer area is home to a large concentration of data centres, notably around the A4 motorway. The local network was not designed to cope with this industry's huge appetite for energy. To cater to the exploding demand for energy in Haarlemmermeer, we are consulting with the national transmission network operator TenneT, the municipality and residents to find a suitable location for adding new capacity to the area. In 2017, Liander received approval from the ACM to use the reserve capacity of one of the stations in the Haarlemmermeer area to meet customer demand.

To guarantee the reliability of our energy distribution, Liander invested in the replacement and expansion of the electricity network. The Amstelveen transformer station was partly renewed. Furthermore, it was decided to replace the Schalkwijk station. All these expansions were subject to intensive consultation with local parties.

Amsterdam

Demand for energy around the Zuidas business area is rising faster than expected. We worked on the renewal of Zorgvlied station. In 2017, we also looked for new expansion locations and worked on smart solutions to facilitate demand. We collaborated with the municipality at various levels to expand the electricity network in Amsterdam. Besides the redevelopment of areas, this also comprises activities at a more operational level to fit the installations into the urban environment. We also jointly analysed and formulated our energy ambitions in the IJburg district.

Zuid-Holland

Renewable energy is attracting a lot of interest in Zuid-Holland. In 2017, the demand for energy rose further in the greenhouse farming area of Zuidplaspolder. Network operators Stedin and Liander are active in adjacent parts of that area and worked with TenneT to find a sustainable common solution. At various locations in Zuid-Holland, such as at Katwijk Station and the centre of Alphen, we replaced existing installations with new-build.

Friesland

Friesland has really embraced solar energy and targets 200 megawatts in 2020 and 500 megawatts in 2030. As a result, demand for solar energy surged. This was reflected in solar fields and a collective solar scheme initiated by businesses. At various places in Friesland, Liander started to reinforce the existing infrastructure to cope with the strong growth in renewable energy.

Flevoland

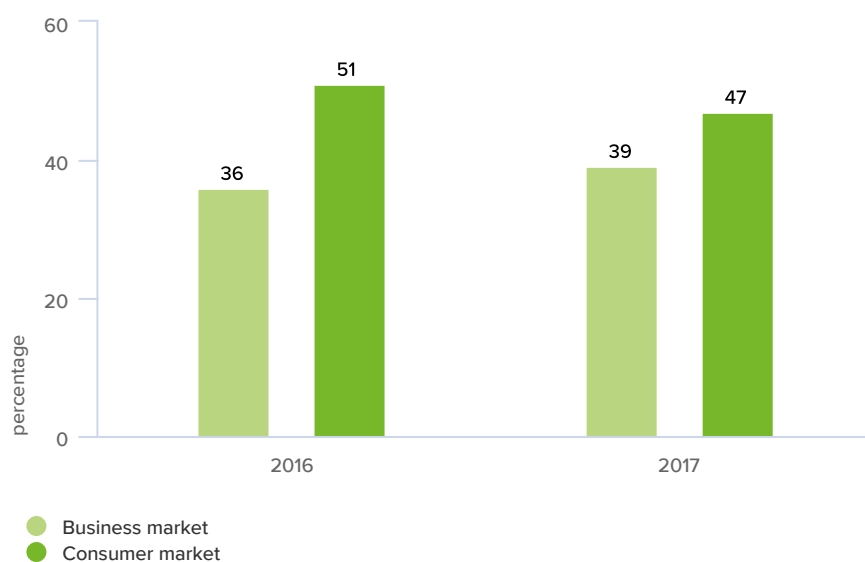
Flevoland is an extremely suitable area for wind generation. Talks were started for wind farms near Dronten and Lelystad in order to agree on the best socially acceptable connection solution. This decision will determine which capital investments need to be made in the network. In Lelystad we helped to realise Europe's first-ever direct current network.

Customer Satisfaction

The key determining factor of customer satisfaction is the convenience they experience. Since 2017, Alliander has been measuring this using the Net Effort Score (NES). Immediately after completing a job, we ask customers for feedback on our services. The NES shows at a glance how much convenience (in percentage terms) a customer experiences. The calculation consists of the balance of the percentage of respondents who experience little or very little inconvenience minus the percentage that experience great or very great inconvenience. This provides insight into the results we achieve and the areas where improvements still need to be made. The NES is updated on a monthly basis on our website.

Our customer satisfaction score for the business market was 39%, which was above target (38%). The main reasons are better access for customers (online and telephone) and better call handling thanks to intensive coaching. At 47%, our customer satisfaction score for the consumer market was below target (52%). This was partly related to the problems with the realisation of our work package and media issues surrounding the smart gas meter. An aggravating factor was the resulting longer waiting times at customer service, despite the expansion of our online services. Other determinants of customer satisfaction are outage duration and communication and good and fast complaints handling. We are continuing to devote extra attention to these aspects.

Customer satisfaction¹



¹ Starting from 2017, Alliander reports on customer satisfaction using the Net Effort Score (NES). The scores for 2016 have been restated according to this definition for comparison purposes. The 2016 figure falls outside the scope of the external auditor's assurance engagement.

Online customer service

Our customers value the Liander website and the 'Mijn-Liander' section. Since the end of October, Liander customers in the Ede and Apeldoorn regions can use our handy online service to make an appointment for their electricity connection. The feedback on this experiment indicates that this Alliander service offers customers an experience similar to that of mainstream webstores. During the trial, 57% of the customers in the selected regions opted to make an appointment online. The trial ran until the end of December.

Liander's clear website gives customers easy access to all sorts of information, such as the status of current interruptions, the options for new electricity connections and smart meters. Liander guides customers quickly to the right place for answers to their questions. The recommendation from the benchmark survey was to offer direct communication options (e.g. chat and WhatsApp) on frequently visited information pages.

Employees

Alliander employs about 7,100 people (FTEs). Together they secure a reliable, affordable and accessible energy supply. We offer our employees a safe and healthy working environment that they can be proud of. In this way, we challenge them to get the best out of their knowledge, expertise and creativity.

This chapter is about what we do for our employees. Our colleagues have indicated that they most want to read about 'safe and healthy working practices' and 'training & development'. This report therefore sets out our results on these issues. For information on how the most important topics were identified, please see the Materiality analysis.

Objectives and results related to employees

Lost Time Injury Frequency (LTIF)



OBJECTIVE 2017

2.0 or lower

RESULT 2017

1.4

2.0 in 2016

Employee absenteeism



OBJECTIVE 2017

3.9 % maximum

RESULT 2017

4.2 %

4.1 % in 2016

Employee survey score



OBJECTIVE 2017

75 % minimum

RESULT 2017

71 %

70 % in 2016

Active safety culture percentage



OBJECTIVE 2017

30 % minimum

RESULT 2017

25 %

34 % in 2016

Women in leadership positions



OBJECTIVE 2017

27.0 % minimum

RESULT 2017

24.9 %

24.7 % in 2016

People at a distance from the labour market



OBJECTIVE 2017

100 minimum

RESULT 2017

102

104 in 2016

The energy transition is in full swing. Demands from customers and the market are increasing in volume and complexity. As a result, we must handle more work and resolve evermore challenging issues. An agile organisation is key to keep up with this evolving landscape. Our employees, too, must be flexible and open to change. Last year, Alliander welcomed more than 150 new technicians. However, this is by no means sufficient to deal with our growing workload. That is why we, as an organisation, must also become more effective in the way we perform our daily work. Through more efficient working methods, better planning and more accurate forecasting of the work coming our way. We are actively learning how to make smarter use of each other's professional expertise and skills. Added to this, we have made the recruitment of new technical colleagues a top priority. Recognising that further development of our leadership skills is crucial to achieve our objectives, we are investing in five leadership competences that we consider important. All these measures are necessary to ensure that our customers can consume the energy they need every day, both now and in the future.

Recruitment of technical talent

For several years now, we have been actively conducting recruitment campaigns on several fronts (both internal and external) to highlight and address the shortage of technicians within our company. This includes closely involving colleagues in our recruitment efforts and participating in an energy jobs platform (www.jobsinenergy.nl). We notice that a technical job is not high on the list of preferred career options. We are therefore strengthening our ties with educational institutions and schools to introduce children and young people at an early stage to the fulfilling and challenging field of energy technology. Examples are the WATT.nl platform and the Peta Academy, in which Rijkswaterstaat, ProRail and the energy network operators are working together to make young people enthusiastic about the energy transition and renewable energy generation. The shortage of technicians is not just a problem within the energy sector. It is a challenge facing the whole of the Netherlands.

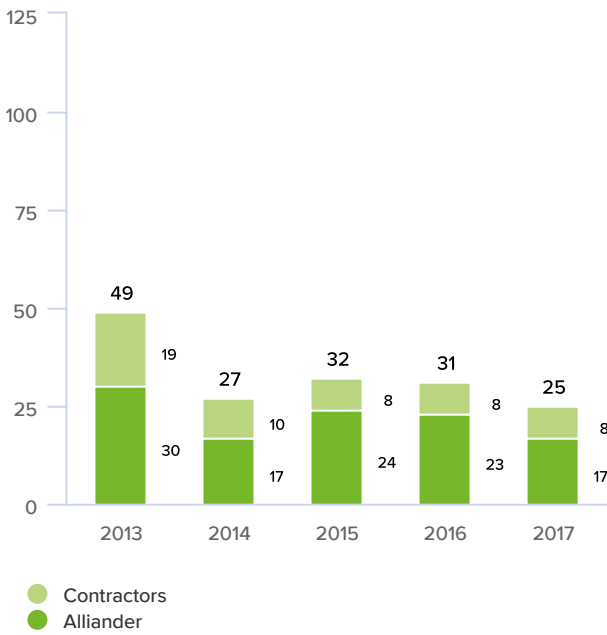
Ready for a new future

Alongside the acceleration of economic activity and the challenges arising from the energy transition, technological developments also impact the way we do our work. Robotisation and digitisation, for instance, are visibly leading to the disappearance, creation and redefinition of jobs. To ensure that we, and our employees, are prepared for this new future, Alliander needs to continue investing in a culture that encourages everyone to freely and openly discuss the new reality and to invest in their lifelong development. Irrespective of age, work experience or training.

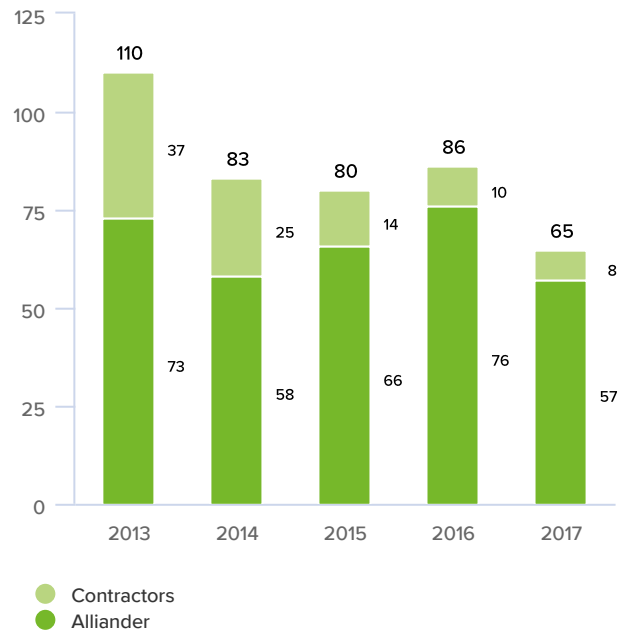
Safe working practices

Our ambition at Alliander is 'everyone safely home'. That is why safety is a permanent priority throughout our organisation, from the Board of Management to the shop floor. We do everything to control risks as far as possible in areas varying from technology and work processes to behaviour. Our aim at Alliander is to make safety integral to our thinking and acting. 'Everyone safely home' is a pledge that is not confined to Alliander employees, but also extends to colleagues of the external parties we work with. Safe working practices are vital to prevent incidents, as well as to ensure that colleagues responsible for the next step in the process chain can do their work safely.

Number of registered accidents with absenteeism



without absenteeism



Safety audit

Last year we conducted a large-scale audit to establish whether safety has been well structured and embedded in our organisation. The audit provides an opportunity to make fundamental safety improvements at all levels of the organisation. For instance, by looking at the way processes and generic frameworks are set up. An action plan was formulated and will be implemented step-by-step as part of the Safety programme in 2018.

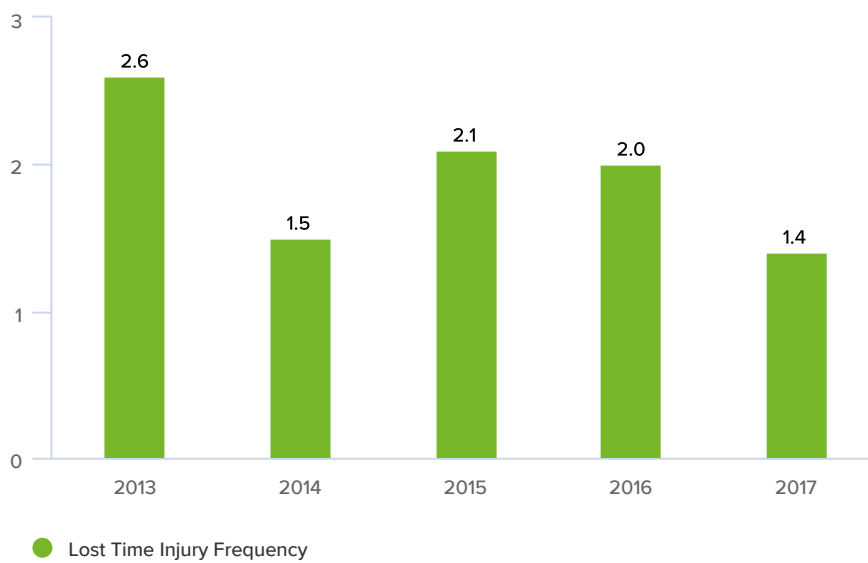
Exposure to hazardous substances

In some activities, employees are exposed to the risk of coming into contact with hazardous substances. In 2017, various initiatives were taken to investigate such exposures. Examples are the continuation of an extensive measurement programme for fumes released during certain activities and an investigation into the prevention of benzene from natural gas. We also initiated the development of a closed pump system for removing benzene-contaminated water from the gas mains. In addition, Alliander started to draw up an asbestos policy last year. This policy describes how we deal with asbestos in installations.

Lost Time Injury Frequency (LTIF)

Lost Time Injury Frequency (LTIF) expresses the number of accidents resulting in absenteeism per one million worked hours. Partly thanks to a long period in which accidents did not result in absenteeism, the LTIF in 2017 came to 1.4, Alliander's lowest LTIF score ever.

LTIF



Safety ladder

Within various units of Liander and Liandon, we measure the level of safety in our organisation at regular intervals. The tool we use for this purpose is the safety ladder. It helps us to improve the safety awareness and behaviour within our company. In the year under review, 25% of our operations scored 3 or higher on the safety ladder (2016: 34%). The expiry of Liandon's safety certificate last year explains the lower score. Recertification is expected to be obtained early in 2018.

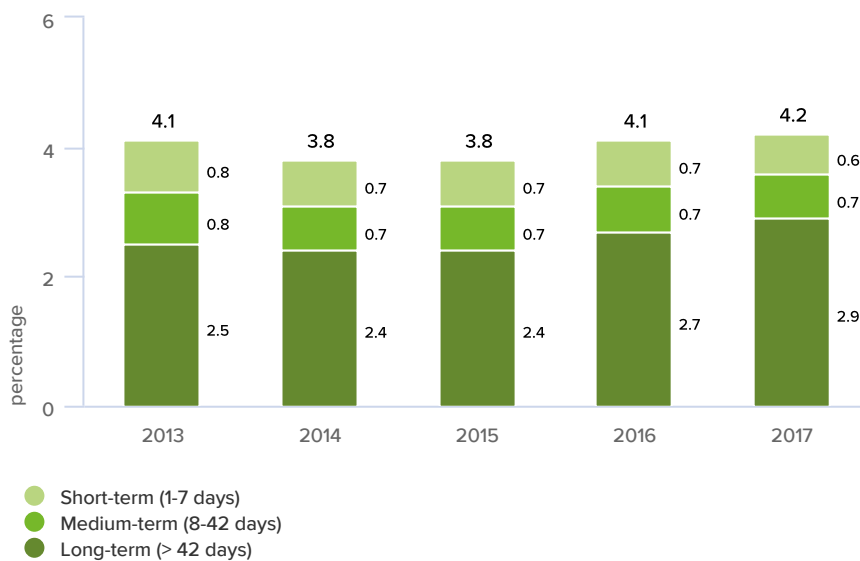
Fit and healthy employees

Alliander is committed to the long-term employability of its employees. The challenge is to ensure that our employees remain sufficiently fit, motivated and skilled for their work, both now and in the future. In addition to talks between managers and employees, Alliander promotes the long-term employability of employees with a special budget and its vitality programme. These investments serve to keep our people in great shape and ready for the work of the future.

Absenteeism

To monitor the success of our efforts to keep our people motivated and healthy, we measure specific aspects such as absenteeism on a regular basis. In 2017, the absenteeism rate was 4.2% (2016: 4.1%). The average for our sector in the Netherlands is 4.5%. In 2017, we made targeted investments to reduce absenteeism. Together with our health & safety department, we rolled out plans to support both prevention and reduction of absenteeism. We also looked at best practices within Alliander. Short-term absenteeism and the number of times employees reported sick declined in 2017. Long-term absenteeism rose in 2017, signalling that our efforts to address this problem are still not sufficiently successful. We will therefore continue to invest intensively in absenteeism reduction in the years ahead.

Absenteeism



Revised Health & Safety Act

The revised Health & Safety Act (Arbowet) took effect on 1 July 2017. The focus is mainly on prevention. Every employee at Alliander can opt to have a prevention interview with a company doctor. Company doctors are also given free access to the workplace, so that they can engage at first hand with people on the shop floor. One new option is to request a second opinion from another company doctor.

New rostering approach for field staff

In 2017, our rostering approach was adapted in response to our field staff's wish to have more flexibility to plan their own work.

Flexible rostering for planned work

Several years ago Alliander introduced flexible working hours for office staff. This option was not yet available to operational field staff such as engineers and measurement technicians. They too, however, expressed a wish for more flexible working hours in order to find a better work-life balance. To accommodate this wish, Alliander started a pilot in 2017 with a new way of planning. Evaluation of the outcomes of the pilot should show which rosters are operationally effective. Subsequently flexible rostering will also be rolled out to our field staff in 2018.

Changes to standby and outage response rosters

Apart from scheduled daytime work, engineers take turns to be on standby in the event of contingencies. In October 2016, Alliander changed the standby and outage response rosters. Some engineers worked a staggered shift from 10.30 to 19.00 hours. The new rosters were evaluated before summer 2017. The outcome was that we had managed to reduce the number of violations of the Working Hours Act (Arbeidstijdenwet / ATW). However, the majority of the employees felt the new roster impinged too much on their personal life. For this reason, various alternative standby and outage response rosters were trialed in the second half of 2017. These new rosters proved to be more in line with the engineers' wishes and will therefore be introduced in mid-2018, subject to the works council's approval.

'It all happens outdoors'



In Arnhem, at the beginning of the Sonsbeeksingel, Liander has placed a metal cabinet flanked by a small post. 'Cathodic Protection' (CP), it says. This is the measurement point where 'CP specialist' Paul Krijt measures the difference in tension between steel gas pipes and the earth. "Every pipe gets a special coating," Paul explains. "That is the primary protection. But we also protect the pipes actively with CP, which involves connecting the pipe with a CP source. This makes the potential of the steel surface negative which, in turn, prevents electrochemical corrosion."

Paul opens the cabinet, sticks a reference electrode in the ground and connects his multimeter to the device.

"This is a rectifier, which we can use to apply cathodic protection to kilometres of gas pipes." The number on the display oscillates between 1,800 and 2,100 volts. "That's good enough," says Paul. But many things need to be taken into account. The condition of the soil, for instance, or a nearby rail track, such as at this particular spot in Arnhem. "If the Dutch rail maintenance company ProRail is having power problems, that is instantly visible in the tension we measure here."

There are no less than 13,000 measurement points in the Liander area. Every measurement point is visited at least once a year, and the rectifiers (about 250 in all) are visited once every three months. In addition, CP specialists perform data analysis, give instructions for maintenance and assist at the drawing table when a gas network is being designed or modified. "To get the work done, I have learned to set priorities. We are working on standardised procedures, so that everyone within Liander and the contractors do their work in the same way. This prevents data pollution and enhances efficiency." Paul also has high expectations of digitisation. The processing of the CP measurements is a manual and complex process. A new digital measurement technique is being introduced in 2018. "This minimises the risk of human error and enables us to detect and rectify faults faster." Moreover, the rectifiers will be equipped with a modem so that all data can be read at a distance. "Doing more office work on days like this – with freezing temperatures and wet snow – is quite good, but it's also a pity to be indoors. Because it all happens outdoors."

Will the phasing out of natural gas affect Paul's work? He is confident it won't. "The network is still there. And as long as the pipes are in the ground, they need to be looked after and protected. Because we may be able to use them to carry other forms of energy." He laughs: "If we get that right, the pipes will not start leaking any longer due to corroding material."

Alliander as employer

Employees are the indispensable link in the daily performance of our tasks. Alliander acknowledges the importance of good employment practices and has the ambition to be a top employer. At a top employer, the employees trust the people they work for, are proud of what they do and enjoy working in a good atmosphere together with colleagues, customers, suppliers and partners. They also get plenty of opportunities to keep developing their skills to remain employable. Employees of Alliander come under the collective labour agreement for network companies.

Employee satisfaction

Every year we conduct our Great Place to Work employee survey to find out how our employees rate our culture and how satisfied they are with aspects of their work and working environment. The response rate of 79% in 2017 was unchanged from the year before. This rate testifies to a high degree of employee engagement and urgency. The general opinion (the average for all statements in the survey) was 71%, up from 70% in 2016. Traditionally, employees are proud of the work they perform (74%) and think they are treated fairly, irrespective of gender, ethnicity, sexual orientation or age. Every year, all managers and employees jointly discuss the outcomes of the employee satisfaction survey.

Training & Development

To give everyone a chance to learn, at any age and at any time, Alliander Opleidingen has created two training institutes: Alliander College and Alliander Technische Bedrijfschool. These institutes deliver training programmes focusing on, respectively, personal and professional development and safety and technical skills. In 2017, Alliander invested 3.3% of its payroll costs in employee training (2016: 3.3%). The classroom teaching programmes were converted into more varied learning programmes, resulting in lower costs in the coming years while achieving at least the same results.

'Alliander Leert!'

Alliander Opleidingen has developed 'Alliander Leert!', a teaching strategy based on a neuropsychological approach. Blended programmes (consisting of a mix of online and shared learning) give the participant an optimal learning experience and promote their lifelong employability.

Technical skills and safety

With its in-house vocational training institute (Alliander Technische Bedrijfschool), Alliander Opleidingen helps to resolve the technical skills shortage by offering a broad range of competence-oriented apprenticeship-based programmes from basic (WEB1) to higher vocational level. In addition, Alliander invests in long-term training and development partnerships inside and outside our organisation. In the future, we can jointly enlarge our pool of professional technicians, whilst achieving the best balance in terms of safety, quality, speed and costs.

Training Centre

Alliander has a dedicated training centre to help employees develop their skills in key areas such as technology, safety and leadership. To ensure that all our employees are and remain ready for the challenges of the energy transition, we invest in them and work together to maintain their professional skills, health and fitness. To this end, we offered schooling and other learning experiences in 2017. Finding high-quality staff is also a challenge from a risk management perspective. Alliander therefore actively develops competences through trainee and talent management programmes.

Career Centre

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

In the year under review, we started to hold interviews with employees about their future development, either in their current role or elsewhere. By making timely investments in our employees, we try to avoid redundancies wherever possible. In 2017, 286 employees requested support from the career centre (2016: 234), 49 colleagues became redundant (2016: 161) and 237 people made use of our career centre (2016: 177). Thanks to this assistance, 104 employees managed to find a new job or an appropriate alternative (2016: 25).

Changes in the organisation

Our organisation is constantly evolving. We recently decided to continue entrusting the executive control of Alliander to a two-member Board of Management.

Another decision taken last year was to transfer, effective from 1 November 2017, all unregulated activities concerning the realisation, rental and management of medium-voltage installations to Kenter. Kenter can devote more attention to these activities, enabling us to better meet customer demands.

Finally, Alliander concluded an agreement for the sale of Ziut to SPIE Nederland. All Ziut employees migrated to SPIE. The shares in The New Motion were also sold.

Employee participation

“The new works council structure and approach that Alliander initiated in 2016 continued to be developed in 2017. We now have a single Works Council representing all of our business units, with working groups being formed around elected works council members within all business units. In principle, discussions take place at the lowest possible organisational level, where people know exactly what they are talking about and those directly involved can be asked for their opinions. In addition, both management and the Works Council felt a need for a dialogue about the company’s main themes and the challenges we face, such as the growing volume and complexity of customer demands, the energy transition, safety and innovation. The consultations in 2017 were organised around these themes, which led to added depth and focus.

Other important topics of discussion last year were the conversion of the performance-related employee remuneration to a fixed year-end bonus, the reorganisation of the Operations employee participation working group (to get more focus on collaboration) and the development of the organisation’s costs. For 2018 and beyond we foresee that cost pressures and opportunities to work more efficiently and effectively may necessitate organisational adjustments. The Alliander Works Council wants to discuss this in a constructive manner. Our stated intention in this context is to coach employees from work to work. Employees, for their part, must do their best to remain as broadly employable as possible.”

Arnoud Rikmenspoel, chair of the Alliander Works Council

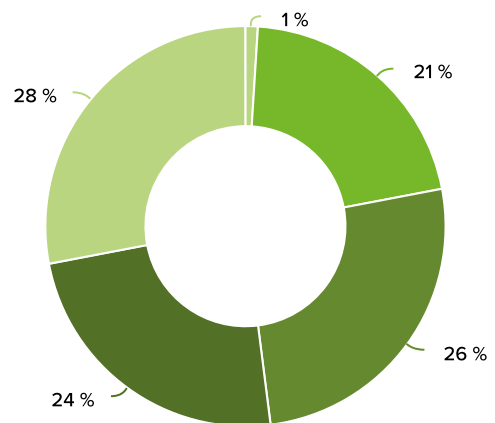
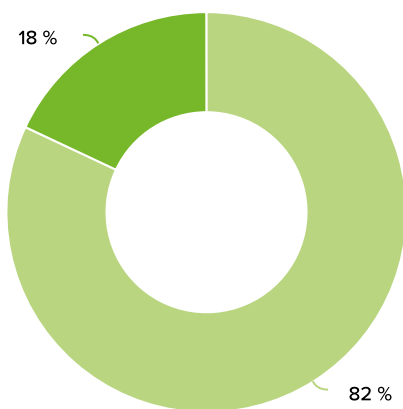
Composition of the organisation

Alliander has a diverse workforce. In terms of competences – we employ many engineers and ICT staff, but also experts in change management and finance – as well as in terms of age, gender and cultural background. We are convinced that we need diversity to fulfil our mission – reliable, affordable and accessible energy for everyone – during the challenging energy transition of today. If society, our customers and the labour market are diverse, we must follow suit. Diversity and inclusion policies form part of our corporate social responsibility.

Staff

male/female

age



- male
- female

- Age <25 years
- Age 25-35 years
- Age 35-45 years
- Age 45-55 years
- Age > 55 years

An organisation where everyone feels at home

The energy transition belongs to us all. That is why Alliander is committed to being a diverse company, where everyone counts, feels at home and can use their talents to the full. Though energy-related jobs are regarded as typical men's work, we try to build and maintain a varied workforce. This is because we believe diversity leads to better decision-making and cooperation. Moreover, we think that colleagues must be able to be themselves, irrespective of their gender, age, (cultural) background, religion and sexual orientation. That is why we encourage the recruitment of women in leadership positions, employees with an immigration background and people at a distance from the labour market. Last year, Alliander received the Diamant-award Runner Up from the Talent to the Top monitoring committee for its high-quality, inclusive and imaginative diversity policy. In addition, we initiated an action study – named Piekstroom – to explore how Alliander and highly qualified women with senior management potential can be brought together. Forty colleagues conducted intensive talks and made recommendations. These were worked out into business cases by other colleagues. Focal areas included partner leave, personal development interviews with scope for alternative career paths and knowledge about female leadership. We want to challenge the organisation to become future-proof and help women make the most of their talents at all levels.

The number of staff employed amounted to 7,131 FTEs in 2017. This comprises all Alliander employees including contract staff. The majority (82%) are male. We see a proportionate representation across age groups. The percentage of women in leadership positions increased slightly from 24.7% to 24.9%. We have initiated targeted efforts to increase this percentage.

Finding work via step2work

Alliander is convinced that people in work feel more engaged with society. People at a distance from the labour market (e.g. due to physical or mental impairments) need support to find suitable employment. In 2017, we offered apprenticeship-based jobs to a total of 102 youngsters, over-50s and people with a physical impairment (2016: 104). In addition, the programme created five development places for asylum status holders. We are also developing an engineering course for refugees.

Boost for unemployed youth in Amsterdam

In Amsterdam, we were instrumental in helping candidates find work via I-MPower, a joint youth project with Nuon and Philips, the municipality of Amsterdam and local parties within Amsterdam. Twelve youngsters from the Amsterdam area with a distance to the labour market were taken on as youth coaches at Alliander, Nuon and Philips. The task they were given was to coach at least 90 unemployed young people in their immediate and wider circle towards work or to encourage them to take up a study or apprenticeship. The youth coaches made their own action plan drawing on their personal experiences and network. They were supported by Manpower and Randstad and also received training themselves. What is unique about this project is that the coaches are themselves representative members of the target population, while each is approaching this challenge from his or her personal angle.

By taking part in the I-MPower project, Alliander makes a contribution towards a society where everyone gets a chance to participate and bring his or her talents to fruition. The I-MPower employment programme was organised for the third time. In 2014 and 2015, a total of 178 unemployed youngsters were successfully coached by their peers to work and/or school.

Alliander Foundation

The Alliander Foundation encourages and helps our employees to engage in volunteer work. The initiative taken in 2016 to mark the Alliander Foundation's tenth anniversary was continued in 2017 under the name 'Doen voor een ander'. As part of this initiative, employees could apply via the Foundation for a budget to visit people who are lonely or need a comforting hand and give them a day to remember. In 2017, 1,010 volunteers took part in activities and the foundation gave financial support to 77 employee projects. Traditional team initiatives include doing odd jobs and taking part in social activities for specific target groups. A new emerging trend is that more and more teams are putting their expertise at the disposal of charitable causes. Alliander is proud that the Foundation supports employee volunteering.

The object of the Alliander Foundation is to encourage employees to make a charitable contribution to society in their spare time. The Foundation supports their initiatives. volunteer work is beneficial, both for the outside world and for the participating employees. The recipients of the volunteers' time experience direct benefits in terms of practical assistance, social contact and emotional support. And the employees, in turn, get a chance to widen their horizon. The Alliander Foundation is an employee-driven programme. The impact measurement therefore focuses on the impact that the Alliander Foundation has on its own employees. The emphasis in the volunteer work is on independent organisation and on involving other colleagues in the initiative. Employees can contribute to society through the Alliander Foundation in various ways:

- doing a socially engaged team activity with colleagues
- carrying out volunteer work for activities organised by the Alliander Foundation or employees of Alliander
- requesting a budget to support an initiative involving volunteer work in their spare time
- requesting a budget to organise a collection for a charitable cause

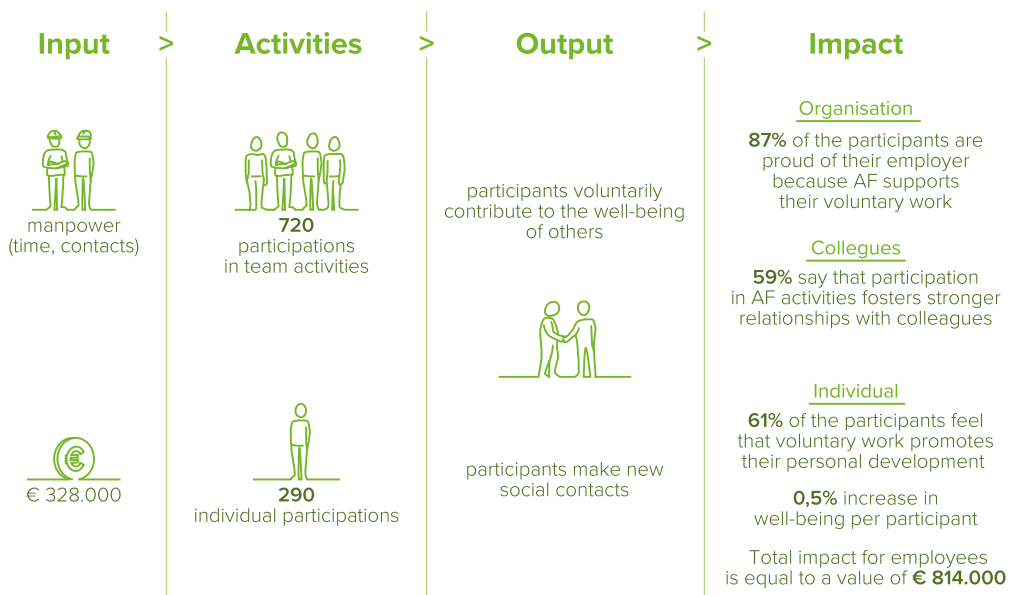
The impact of the Alliander Foundation



Employees who took part in voluntary work via the Foundation indicate that they appreciate Alliander facilitating this work. 59% of the participants feel that volunteering together strengthens their bond with colleagues: the team spirit is reinforced and colleagues get to know each other better by working and enjoying things together in a different setting. 61% of the participants feel that the voluntary work contributes to their personal development. They develop skills such as empathy, emotional awareness of others and dealing with people from different backgrounds. And they also get an opportunity to use their professional skills, such as analytical ability and active communication during voluntary work. Almost all employees agree that doing voluntary work has widened their horizon by putting them into contact

with new organisations, target groups and social themes.

All in all, the Alliander Foundation contributes to the participants' sense of happiness. As a result, our employees were on average a little (0.5%) happier than the average person in paid employment in the Netherlands in 2017. Not just on account of the aforementioned experiences, but also because the voluntary activities enhance their enjoyment in their work and their sense of feeling appreciated. In this way, the Alliander Foundation also contributes to the overall sense of well-being experienced by Alliander employees as described under human capital in Our impact. In monetary terms this impact represents a value of € 814,000 (excluding the costs of the Foundation's organisation). The value of the well-being effects for the recipients of voluntary work through Alliander Foundation was not calculated within the scope of this study.











Shareholders and investors

As a major energy network company, we have an important function in Dutch society. Consequently, our social, financial and sustainability performance has a significant role in the considerations of shareholders and investors which we can meet if we have a sound and healthy financial position.

Stakeholders in our enterprise with financial and corporate social responsibility interests have identified the following subjects as important to them: energy consumption and CO₂ emissions, transparency, supply chain responsibility, investment policy and economic performance. This section gives details of our performance in these areas.

Objectives and results relevant to shareholders and investors

<p>Rating </p> <hr/> <p>OBJECTIVE 2017 To retain a solid A rating profile</p> <hr/> <p>RESULT 2017 S&P AA-/A-1+/stable outlook Moody's Aa2/P-1/stable outlook</p>	<p>Socially Responsible Procurement (SRP) </p> <hr/> <p>OBJECTIVE 2017 71% minimum</p> <hr/> <p>RESULT 2017 70.4% <small>71.0% in 2016</small></p>	<p>CO₂-emissions from business operations </p> <hr/> <p>OBJECTIVE 2017 672 kt max</p> <hr/> <p>RESULT 2017 632 kt <small>824 kt in 2016</small></p>	<p>Circularity¹ </p> <hr/> <p>OBJECTIVE 2017 5%</p> <hr/> <p>RESULT 2017 6%</p>
<p>FFO/Net debt </p> <hr/> <p>OBJECTIVE 2017 >20.0%</p> <hr/> <p>RESULT 2017 27.4% <small>26.6% in 2016</small></p>	<p>Interest cover </p> <hr/> <p>OBJECTIVE 2017 >3.5</p> <hr/> <p>RESULT 2017 10.2 <small>8.3 in 2016</small></p>	<p>Net debt </p> <hr/> <p>OBJECTIVE 2017 <60.0%</p> <hr/> <p>RESULT 2017 34.4% <small>32.6% in 2016</small></p>	<p>Solvency </p> <hr/> <p>OBJECTIVE 2017 >30.0%</p> <hr/> <p>RESULT 2017 56.7% <small>58.5% in 2016</small></p>

How finance and sustainability go hand in hand

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

Financial policy

Financial framework

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

Ratios on the basis of Alliander's financial policy

	norm	31 December 2017	31 December 2016
FFO/net debt ¹	> 20%	27.4%	26.6%
Interest cover ²	>3.5	10.2	8.3
Net debt/(net debt + equity)	< 60%	34.4%	32.6%
Solvency ³	> 30%	56.7%	58.5%

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

As at 31 December 2017, the FFO/net debt ratio amounted to 27.4% (year-end 2016: 26.6%) The increase is mainly accounted for by a relatively greater increase in operating profit compared with net debt.

As at 31 December 2017, the interest cover ratio worked out at 10.2 (year-end 2016: 8.3). The increase is mainly accounted for by lower interest expense and an increase in the operating profit. Alliander's financial policy stipulates that this ratio should be a minimum of 3.5.

The ratio of net debt/sum of net debt and equity as at 31 December 2017 amounted to 34.4% (year-end 2016: 32.6%). Alliander's financial policy stipulates that this ratio should not exceed 60%.

The solvency ratio as at 31 December 2017 amounted to 56.7% (year-end 2016: 58.5%), compared with a minimum of 30%. The fall compared with 2016 is mainly due to an increase in total assets as a result of capital expenditure on the networks and a relatively smaller increase in equity.

Dividend policy

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

Investment policy

The investment policy is consistent with the financial policy and is part of Alliander's strategy. Elements of investment policy include compliance with regulatory requirements relating to investments in the regulated domain, such as safety and reliability, and the generation of an adequate return on investment. Ordinary investment proposals are tested against minimum return requirements and criteria as set out in the financial policy. Innovative schemes require specific Management Board approval. As well as quantitative standards, investment proposals must also satisfy qualitative requirements. It should also be noted that, in principle, investments in the regulated domain arise from a network operator's statutory duties.

Economic performance

Alliander makes a major contribution to welfare in the Netherlands. There is a considerable indirect impact on the Dutch economy from the transmission of energy and on welfare experienced through the permanent availability of energy. We explain this in our impact model. We have a direct impact through the value of income for our stakeholders and through earnings, salaries and fees, donations and other investment in society. This is set out in note 24 of the Financial Statements. The dividend distributed to shareholders and payments to providers of capital and government authorities make an indirect contribution to social goals. The way these items are allocated and used is set out below.

Our financial stakeholders

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

All of Alliander's shares are held directly or indirectly by Dutch provincial and municipal authorities. A full list of the shareholders can be found on www.alliander.com. The authorised share capital of Alliander N.V. is divided into 350 million shares with a nominal value of €5 each. All the shares are registered shares. As at 31 December 2017, there were 136,794,964 issued and paid-up shares. Contact with shareholders primarily takes place in shareholders' meetings. However, Alliander also believes that it is important to have contacts between the company and its shareholders outside of the shareholders' meetings, on a bilateral basis or in a wider forum. A summary of the various shareholder dialogue structures can be found on the Alliander website.

Institutional investors

Institutional investors in our bond issues, such as asset managers, insurance companies, pension funds and banks, provide a large part of our financing in the form of debt. These are mostly Europe-based professional players on the international financial markets. We keep existing and potential bondholders informed regarding the company's financial position and results as well as developments in the industry by actively engaging in investor relations activities in addition to complying with ordinary publication requirements. In this context, in March 2017 we met investors in Amsterdam, Frankfurt, Paris and London to discuss the 2016 figures. In September 2017, we held a conference call on the half-year figures. On both occasions, we addressed a range of subjects including the method decisions and regulated WACC for the new regulatory period, consolidation in the sector, the challenges that Alliander faces from the energy transition, the impact on Alliander of the exchange of networks between Alliander and Enexis and the consequences of the Senate's rejection of the Electricity and Gas Bill (STROOM).

As had been agreed, a report on the use of the funds from the Green Bond issue in April 2016 was issued in March 2017. The Green Bond Report included additional information on the projects financed and the effect of this investment on reducing CO₂ emissions. The report is available on our website, see: Green Bond Report 2017.

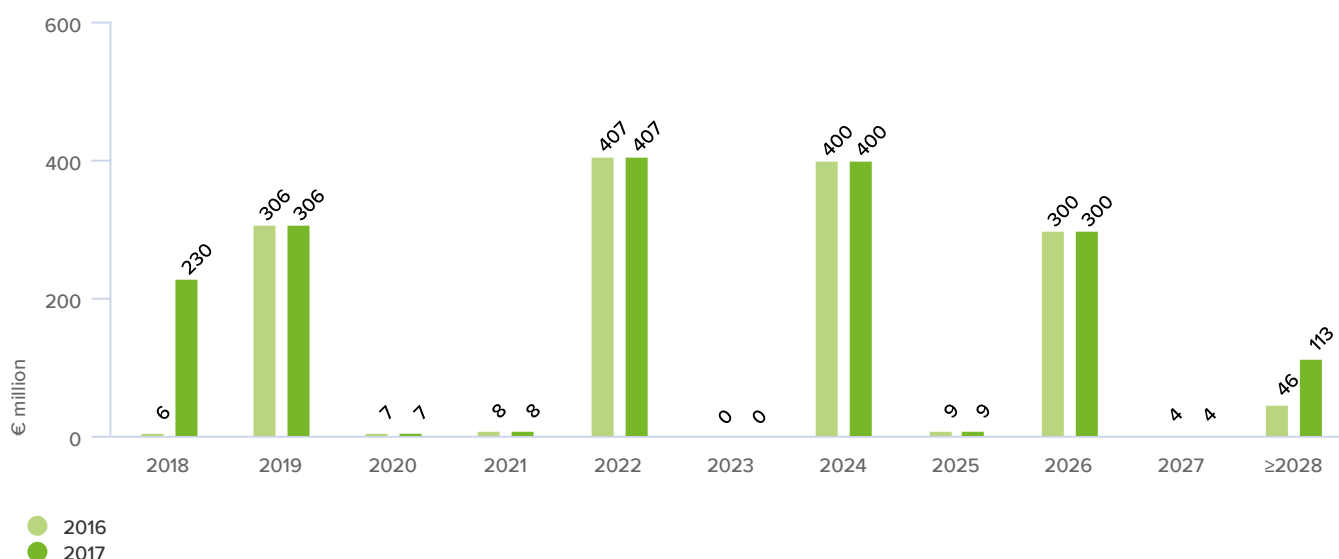
Issue and repurchase of perpetual bonds

On 29 January 2018, Alliander announced its intention to issue a new perpetual subordinated 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 were issued at a coupon rate of 1.625% at an issue price of 99.144%. At the end of the tender period on 5 February, investors holding a total of some €413 million of bonds from the 2013 issue had registered for repurchase by Alliander. In accordance with the loan terms and conditions, the remaining €87 million of bonds outstanding will be redeemed at 100% of face value by exercising the first right of redemption on 27 November 2018. In accordance with Alliander's financial policy, the new bonds will be regarded as 50% equity for calculating financial ratios. The outstanding bonds from the 2013 issue will be counted as 100% debt for rating purposes with effect from 30 January. The current recognition as equity will be continued under IFRS.

Interest-bearing debt

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

Repayment schedule interest-bearing debt



The amounts scheduled for repayment in 2019, 2022, 2024 and 2026 mainly relate to the bond loans. The repayment in 2018 relates to the ECP and other amounts to the repayment of shareholder loans and other loans. Alliander has a €3 billion EMTN programme. As at 31 December 2017, the carrying amount of the outstanding bonds was €1,395 million (nominal value €1,400 million). Alliander has available an ECP programme totalling €1,500 million which can be used to issue short-term debt instruments. As at year-end 2017, ECP loans with a face value of €225 million were outstanding. Amounts drawn in currencies other than the euro are fully hedged.

Banks

In July 2017, Alliander renewed its existing committed €600 million back-up credit facility for one year. The facility now runs to July 2022. There is an option in 2018 to renew the facility by one year to July 2023 at the latest. The facility has been entered into with six banks. As in previous years, this facility was not drawn on during the year.

In July 2017, Alliander entered into a loan with the European Investment Bank on favourable terms. The loan is for €300 million and will be drawn in three tranches. The first tranche of €75 million was drawn in September 2017 and the remaining €225 million will be drawn in two tranches during 2018. The loan has to be repaid in full in 2031.

Rating agencies

In order to retain ready access to the capital and money markets, it is important for existing and potential financiers to have an accurate picture of Alliander's creditworthiness. Alliander uses credit ratings for this. Having a credit rating is also an obligation under the terms of the cross-border lease contracts entered into at the end of the 1990s by Alliander's legal predecessors. Alliander has credit ratings from S&P and Moody's. These ratings comprise a long-term rating with an outlook, and a short-term rating. The outlook is an indication of the expected change in the long-term rating over the next few years. S&P and Moody's have kept both ratings and outlook unchanged. The credit ratings as at year-end 2017 were as follows:

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

During the reporting period, Alliander was in contact with the rating agencies on several occasions. These contacts covered such things as the regulatory system, the exchange of networks with Enexis and the transition from gas to district heating.

Based on the recent financial performance and forecast figures for Alliander presented on these occasions, S&P reassessed Alliander's creditworthiness and confirmed the existing ratings and outlook. Moody's is expected to issue an update in the first quarter of 2018.

Leiden is working hard on its heating policy vision



The municipality of Leiden, one of Alliander's shareholders, regards the energy transition as one of the greatest challenges of the next few years. Alderman Paul Dirkse (Education, Sport and Sustainability) explains.

"At the end of 2015, the council adopted an ambitious sustainability programme with a key role for energy. We have, for example, a city-wide network of neighbourhood ambassadors who offer accessible advice to people who want to make their homes energy-efficient. Leiden has also entered into the School Building Sustainability Green Deal with school managers and since 2017 we have purchased wind

energy generated in the Netherlands for the municipal organisation. An ambitious energy accord was recently entered into with the region and in November 2017 the council was one of the first municipalities in the Netherlands to adopt a heating policy outlook for making urban district heating more sustainable.

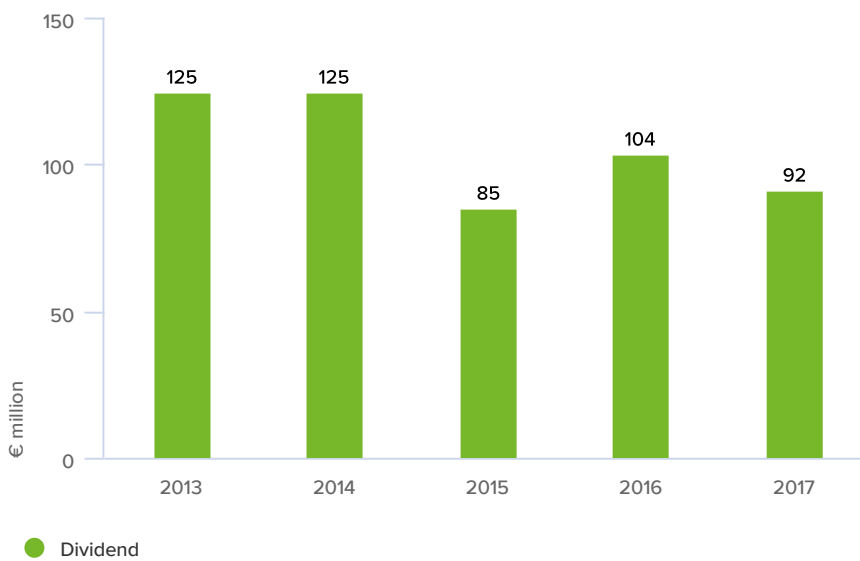
Working together from the start is vital for a successful energy transition. We have to and want to have the courage to be specific. A good example is the letter of intent on making Leiden Zuidwest gas-free in 2035. By 2035, this district will no longer be using natural gas for cooking, showering or domestic heating. A broad group of stakeholders, including Liander and AllianderDGO, are working towards this goal. There is still much uncertainty but fortunately this does not mean that everyone is taking a 'wait and see' attitude and Alliander's facilitation role is very useful. Both Liander and AllianderDGO have played a major role in creating the Leiden Heating Policy Outlook, for example by sharing information on the age of the gas mains and by being very involved in implementation. The municipality of Leiden also wants to progress this useful alliance."

Proposed profit appropriation for 2017

The Management Board has determined, with the approval of the Supervisory Board, to add €111.8 million of the profit to the other reserves. The remaining profit of €91.5 million is at the disposal of the General Meeting of Shareholders. This equates to 45% of profit after tax, excluding non-cash incidental items in the 2017 financial year.

The dividend for 2017 is down by €12.3 million compared with 2016 owing to the lower net profit for 2017, caused mainly by the book profit on the sale of Endinet in 2016.

Dividend



Alliander's tax matters

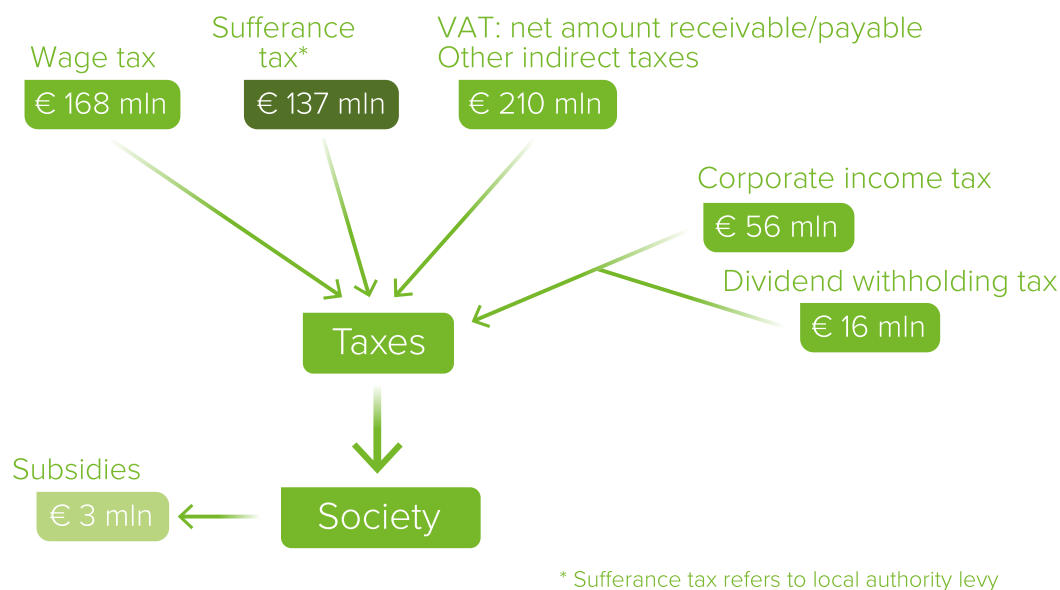
Alliander is very careful to discharge all its tax liabilities and its obligations with respect to subsidies, having due regard to and in view of the role it plays in society. Based partly on the dialogue and cooperation with our stakeholders (both inside and outside the company), we have adopted the following mission with regard to all our activities relating to tax and subsidies:

“We are a committed and reliable taxpaying company that makes a fair contribution to society through the tax which it pays.”

To this end, we have set ourselves a number of goals that we strive to achieve each and every day:

- Compliance with all primary and secondary legislation relating to tax and subsidies both at home and abroad.
- Transparency concerning the tax payments we make in our financial reporting, such as in the financial statements.
- We have an ongoing and open dialogue with internal and external stakeholders regarding our conduct relating to both tax and subsidy matters. Parties to this dialogue include the Dutch Tax & Customs Administration, the Netherlands Enterprise Agency, the Supervisory Board, the Management Board, internal departments such as Human Resources, Regulation, Governance, Risk and Compliance, Legal Affairs and Internal Audit, as well as other internal bodies.
- We make an active contribution to awareness and culture within Alliander regarding tax and hold each other accountable for our attitude and conduct as regards the implementation of our tax mission.

As a taxpaying company, Alliander is liable for various taxes, chief among which are corporate income tax, wage tax and VAT. The following chart outlines the main cash flows.



Prudent management of tax risks

Alliander is conscious of tax-related risks. We are always careful to act within the bounds of primary and secondary legislation. The primary objective of our conduct in relation to tax matters will generally reflect Alliander's involvement in society and will support the company's operational activities rather than being driven solely by tax implications. This is in line with the Enforcement Covenant under the Horizontal Monitoring (i.e. company self-assessment) arrangements agreed with the Dutch Tax & Customs Administration. Against this background, Alliander strives to reach an advance ruling on potential tax risks by pursuing a constructive and transparent dialogue with the tax authorities. The implementation of our tax strategy also adheres to Alliander's risk management model. In this context, the Tax Control Framework is also used as a risk mitigating measure.

Current tax-related developments

The effective tax burden in 2017 was 25.7% (2016: 27.5%). This is a smaller gap compared with the standard rate than in the preceding year. It was the combined effect of not recognising the losses reported on our operations in Germany and Belgium (increasing effect), utilising tax breaks available for capital projects (decreasing effect) and expenses that are disallowed for tax purposes (increasing effect). Taxes are paid in the country where the activities are carried on. In the case of Alliander, nearly all the tax is paid in the Netherlands. For the 2017 reporting period, this was an amount of €240 million in direct taxation.

In November 2010, Alliander issued a subordinated perpetual bond loan with a nominal value of €500 million. In the closing two months of 2013, this subordinated perpetual bond loan was redeemed. Under IFRS, an instrument of this kind qualifies as equity. It was assumed that the periodic payments made to the holders of the bonds issued in 2010 would count as deductible interest expense for the purposes of corporate income tax.

To date no agreement has been reached with the Dutch Tax & Customs Administration concerning the tax treatment of these loans. In the ongoing appeal proceedings, the District Court at Arnhem upheld Alliander's appeal in a ruling dated 20 December 2016. The Tax & Customs Administration has lodged an appeal at the Court of Appeal, which will be heard on 21 February 2018.

Since 1 January 2016, the documentation requirements in the Corporate Income Tax Act 1969 have been changed with the Netherlands implementing the recommendations in Action 13 of the OECD's Base Erosion and Profit Shifting (BEPS) project. Alliander is covered by the scope of these requirements and has implemented them in order to meet the new requirements in good time.

Considered approach to grant applications

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

Outlook

Developments in the energy market (including greater internationalisation) make tax matters increasingly complex. Alliander's aim is to maintain the existing status with respect to compliance and to have a stable effective tax burden. Paying our fair share - in the way we attempt to do in conjunction with our stakeholders - remains at the heart of our tax policy.

Financial results in 2017

Financial flows within Alliander

Alliander's income is made up of approximately 85% income from the regulated activities of Liander and 15% other income, the latter being income from activities outside the Netherlands, income related to new activities and other income such as from the rental of large-user meters and transformers and from the activities of other companies outside the regulated energy sector. The network operator Liander will be publishing its own annual report on its performance in 2017 during the second quarter of 2018.

The main expenditure relates to maintenance work on the electricity and gas distribution networks and the operating expenses connected with all other activities. On top of that, we invest in excess of half a billion euros a year in capital projects, mainly concerned with replacing existing assets and expanding the networks, as well as the installation of smart meters. This investment equates to roughly 25% of our total expenditure. In total, these items account for approximately 60% of our overall expenditure. Additionally, there is the dividend payable to our shareholders and the interest payments to the holders of the subordinated perpetual bond loan and the providers of borrowed capital. The dividend and interest payments for 2017 together amounted to approximately 6% of our overall expenditure. Finally, we pay surcharge tax charges to municipal authorities and corporate income tax to the Dutch Tax & Customs Administration. This accounts for another 9% of our outgoings approximately.

Income statement for 2017

The profit after tax for 2017 was €203 million (2016: €282 million). The decrease was due mainly to the book profit of €176 million included in the result for 2016 on the sale of the network company Endinet to Enexis.

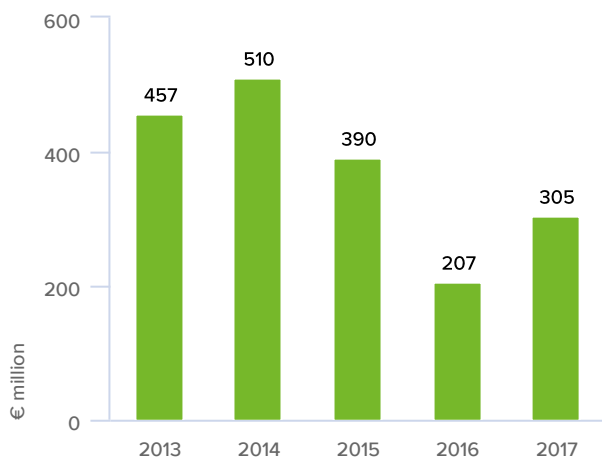
Profit after tax from continuing operations excluding incidental items was €206 million, which is €74 million higher compared with 2016 (€132 million). This was mainly as a result of higher operating income.

Operating income in 2017 was up by €117 million compared with 2016, at €1,840 million. This was mainly because of an increase in regulated revenue resulting from an increase in regulated tariffs. This increase includes compensation for prior-year surcharge tax charges.

Total operating expenses for 2017 were €1,535 million, which is €19 million higher than in 2016. This increase was chiefly a consequence of higher employee benefits and higher costs passed on from the transmission network operator TenneT. Alliander continues to work towards increased effectiveness and efficiency.

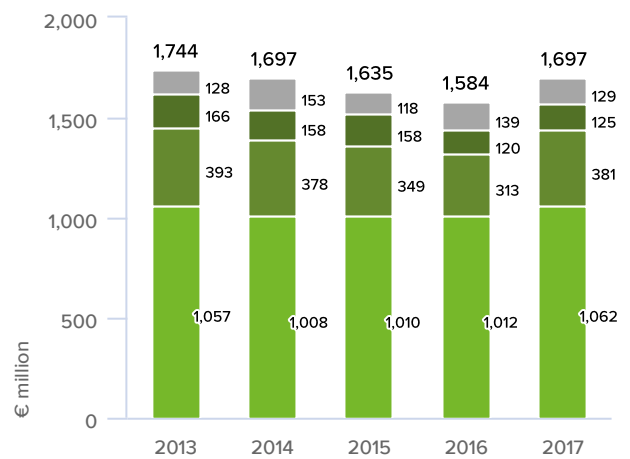
The significant trends in income and expenses are discussed below in greater detail. The amounts presented included Endinet until 2015. As a result of the exchange of service areas on 1 January 2016, figures from that date onwards are presented including Friesland and the Noordoostpolder (FNOP) and excluding Endinet.

Operating profit



● Operating profit

Revenue¹



● Other revenue
 ● Metering services
 ● Gas
 ● Electricity

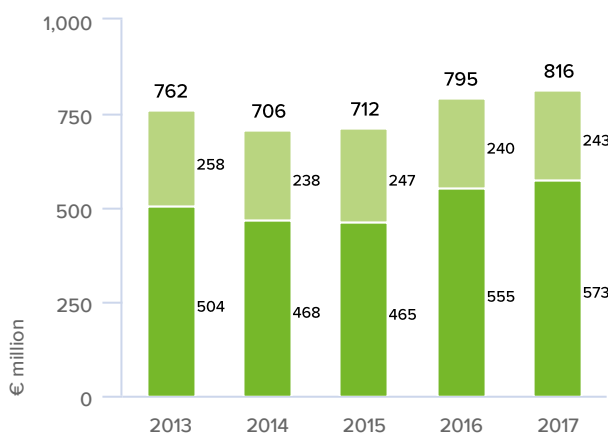
¹ There has been a change of view which results in the transfer of an amount of €46 million from other revenue to operating contributions and other operating income in the comparative figures for 2015.

Revenue

Revenue in 2017 rose by €113 million compared with the previous year, from €1,584 million to €1,697 million. Higher tariffs and an incidental gain from catch-up surfferance taxes had a positive effect on revenue.

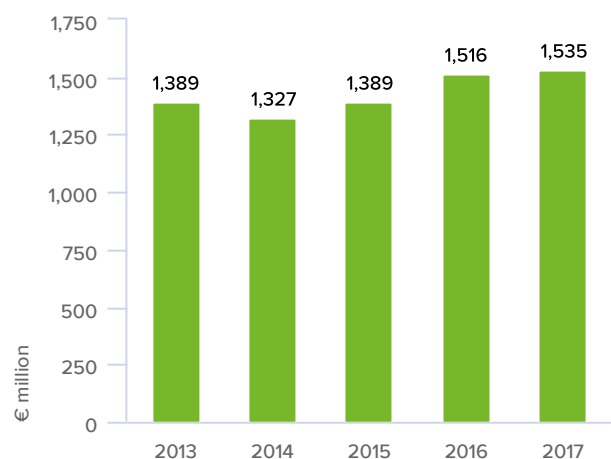
Most of our revenue is generated by regulated activities. Alliander also has non-regulated activities, such as those of Liandon and Kenter.

Maintenance costs and network investments



● Repairs & maintenance
 ● Network investments

Operating expenses



● Operating expenses

Network investments and maintenance costs

The above graph shows the expenditure on maintenance costs and network investments, including meters, over the past five years. Total expenditure on network investments and maintenance costs, at €816 million, was an increase of €21 million compared with 2016 (€795 million). The increase came mainly from an expansion of the working package. Total expenditure on network maintenance costs and investment in district heating networks (€3 million) was also higher than in 2016.

Dilemma: effective investment, but also in good time

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

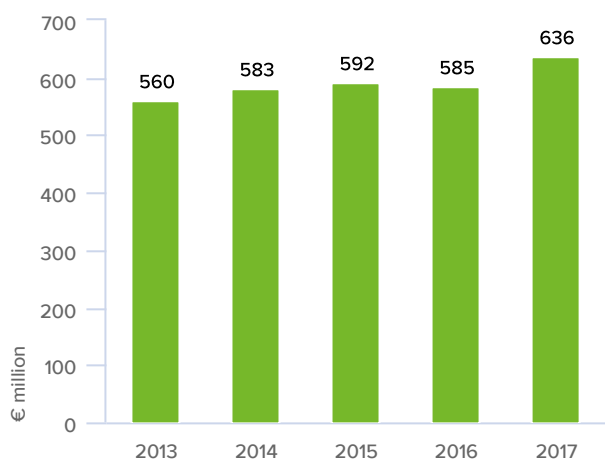
Operating expenses

Total operating expenses rose from €1,516 million in 2016 to €1,535 million in 2017. The increase was the net effect of:

- increased costs of transport capacity and restrictions amounting to €13 million due to higher charges and an increase in volumes;
- an increase of €51 million in employee benefits. This increase concerns both permanent and external employee benefits and came mainly from a rise in the number of FTEs and general pay rises;
- the increase was partly offset by a fall of €12 million in sufferance taxes following new legislation preventing new municipalities from levying these taxes and stopping those already levying these taxes from raising them;
- the cost of hiring contractors, materials usage and other costs fell by €11 million, mainly because of capacity shortages;
- finally, own work capitalised as assets under construction rose by €29 million, mainly as a result of increased investment.

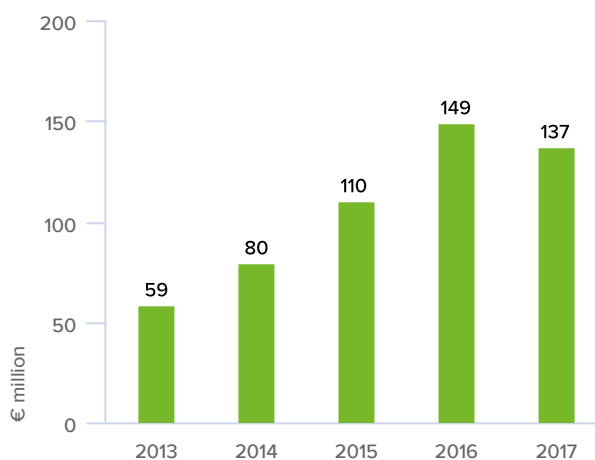
The significant trends in expenses are discussed below in greater detail.

Employee benefit expense (own and contract staff)



● Staff costs

Sufferance tax



● Sufferance tax

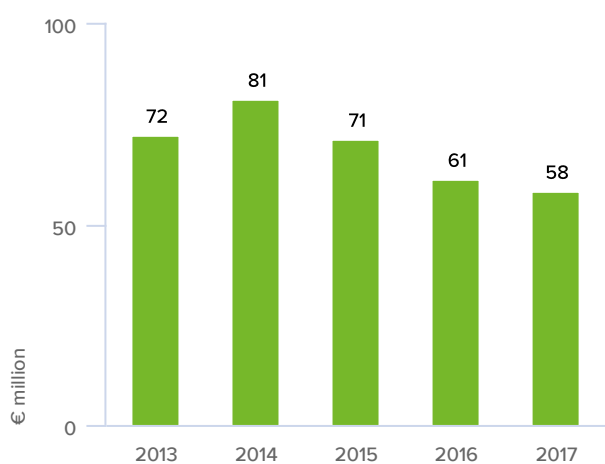
Employee benefit expense

The increase (€51 million) in employee benefit expense for permanent staff and external personnel compared with the preceding year was due mainly to general pay increases and a rise in staff numbers. The rise in staff numbers was concentrated in Liander and Liandon, where activity increased. Finally, employee benefit expenses rose with the increased use of external personnel, mainly because of capacity shortages.

Sufferance tax

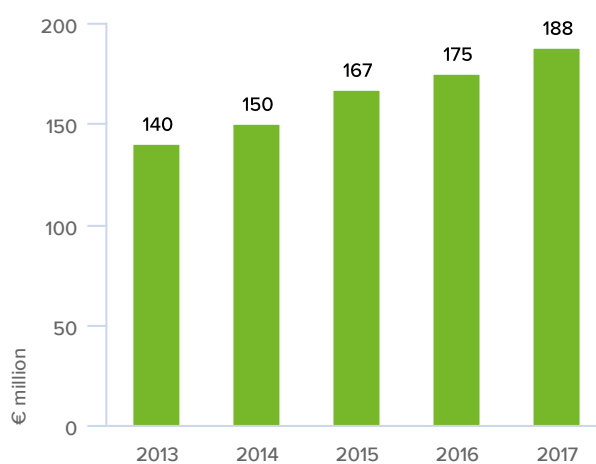
The amount of sufferance tax charges fell by €12 million compared with 2016, to €137 million. The trend in the amount of sufferance tax payable over the past five years is illustrated in the graph above. The increase until 2016 was largely because more and more municipal authorities were levying sufferance tax on Liander and also that sufferance tax rates have risen. The fall of €12 million in sufferance tax charges in 2017 was mainly a result of a release from provisions related to successful legal proceedings.

Costs of grid losses - electricity



● Costs of grid losses - electricity

Transmission capacity costs

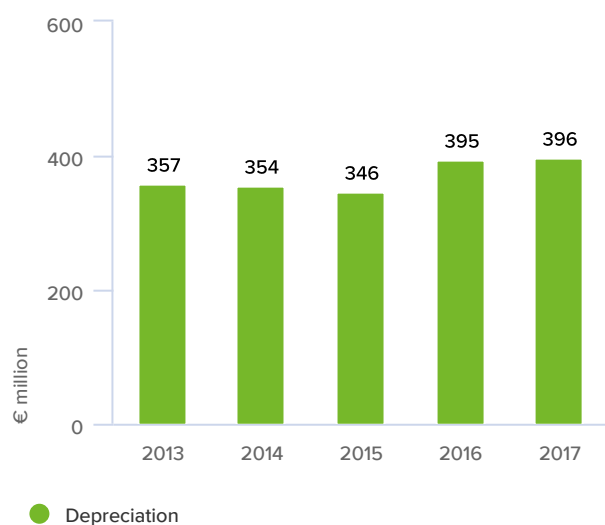


● Transmission capacity costs

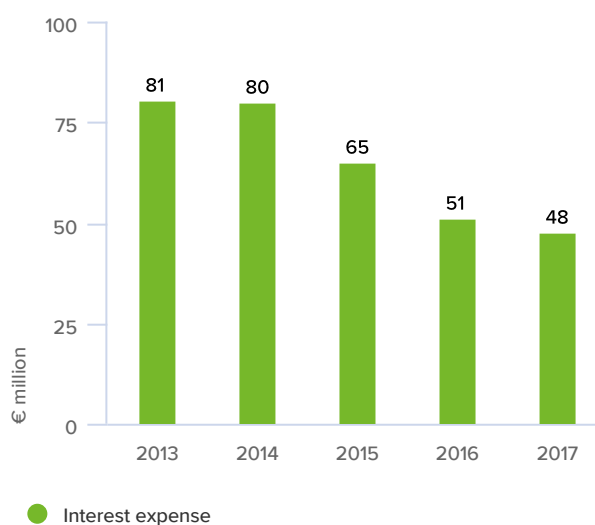
Transmission capacity costs

The costs of providing transmission capacity passed on by electricity transmission network operator TenneT showed a further increase of €13 million in 2017 to €188 million (2016: €175 million). This increase is mainly the effect of higher tariffs charged by TenneT and an increase in volumes.

Depreciation



Third-party interest charges



Depreciation

The depreciation charges and impairment losses on non-current assets amounted to €396 million, which is an increase of €1 million compared with the preceding year (2016: €395 million). The increase is a consequence of accelerated depreciation of traditional metering equipment as a result of the faster large-scale offering of smart meters. There was, however, a reduction in impairment losses.

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

Interest expense

Lower interest rates meant that the interest expense on loans from third parties was down by €3 million in 2017, at €48 million.

Results from associates and joint ventures

In October 2017, Alliander sold its shares in its associate The New Motion to Shell. The book profit on this sale was €11.8 million recognised in the financial statements as Result from associates. The shares in Redstack and Ziut were sold in 2017.

Incidental items

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

Net incidental items and fair value movements in 2017 combined to give a charge of €3 million after tax (2016: gain of €150 million). The following table contains an overview of the reported figures and the figures excluding incidental items and fair value movements.

Reported figures and figures excluding incidental items and fair value movements

€ million	Reported		Incidental items and fair value movements		Excluding incidental items and fair value movements	
	2017	2016	2017	2016	2017	2016
Revenue	1,697	1,584	-	-	1,697	1,584
Other income	143	139	-	-	143	139
Total purchase costs, costs of subcontracted work and operating expenses	-1,367	-1,320	-4	-21	-1,363	-1,299
Depreciation and impairment	-396	-395	-	-13	-396	-382
Own work capitalised	228	199	-	-	228	199
Operating profit (EBIT)	305	207	-4	-34	309	241
Finance income/(expense)	-43	-54	-	-1	-43	-53
Result from associates and joint ventures	9	-5	-	-	9	-5
Profit before tax	271	148	-4	-35	275	183
Tax	-68	-42	1	9	-69	-51
Profit after tax from continuing operations	203	106	-3	-26	206	132
Profit after tax from discontinued operations	-	176	-	176	-	-
Profit after tax	203	282	-3	150	206	132

Total purchase costs, costs of subcontracted work and operating expenses

(2017: €4 million charge, 2016: €21 million charge)

The incidental charge of €4 million concerned costs relating to organisational changes.

The incidental charge recognised as purchase costs, costs of subcontracted work and operating expenses in 2016 included €10 million in respect of project costs and integration costs concerned with the exchange of the energy networks of Enexis in Friesland and the Noordoostpolder with those of Liander in the Eindhoven region and Zuidoost-Brabant (Endinet) on 1 January 2016. Of the remainder of the incidental items included in 2016 in purchase costs, costs of subcontracted work and operating expenses, €11 million was the cost of organisational changes.

Depreciation and impairments

(2017: nil, 2016: €13 million charge)

The incidental charge of €13 million in depreciation and impairment in 2016 was a consequence of the annual triggering event analysis and impairment calculation process and concerned additional depreciation of transformers, part of the network in Germany, vacant premises and part of the CDMA network.

Financial income and expense

(2017: nil, 2016: €1 million charge)

Tax

(2017: €1 million gain, 2016: €9 million gain)

These amounts relate to the tax effect of the incidental items in other income, total purchase costs, costs of subcontracted work and operating expenses and finance income and expense.

Profit after tax from discontinued operations

(2017: nil, 2016: €176 million gain)

The incidental item in the profit after tax from discontinued operations in 2016 related in full to the book profit on the sale of Endinet to Enexis. It should be noted that the substantial-holding privilege applies to the book profit.

Segment reporting

General

Alliander has applied IFRS 8 (Operating Segments) with effect from the 2010 financial year. The segments were revised following the sale of Endinet on 1 January 2016. Starting from the 2016 financial year, Alliander has been using the following segments:

- Network operator Liander
- Other

The figures for each reporting segment, excluding incidental items and fair value movements, are shown in the following table. These figures are a direct reflection of the regular internal reporting. Detailed information on segment reporting can be found in note [2] of the financial statements.

Primary Segmentation

€ million	Network operator Liander		Other		Eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Operating income								
External revenue	1,681	1,582	159	141	-	-	1,840	1,723
Internal revenue	5	3	331	331	-336	-334	-	-
Operating income	1,686	1,585	490	472	-336	-334	1,840	1,723
Operating expenses								
Operating expenses	1,313	1,277	554	539	-336	-334	1,531	1,482
Operating profit	373	308	-64	-67	-	-	309	241

Network operator Liander

The network operator Liander segment consists of the legal entity Liander N.V. which, as designated network operator within network company Alliander, has a statutory duty to manage the electricity and gas networks and related assets in the provinces of Gelderland, Flevoland and parts of Friesland, Noord-Holland and Zuid-Holland. Liander connects customers to the electricity and gas networks through which it distributes electricity and gas. External income in 2017 was up by €99 million compared with 2016, at €1,681 million. This increase includes compensation for prior-year surffrance tax charges. Operating expenses were up by €36 million, chiefly owing to an increase in employee benefits, higher transmission capacity costs and restrictions, higher other costs and higher depreciation. Operating profit at €373 million was €65 million higher than in 2016.

Other

The Other segment covers the entirety of the other operating segments within the Alliander group, such as the activities of Liandon, Stam, Alliander AG, Allego, Duurzame Gebiedsontwikkeling, new activities, the service units and the corporate staff departments. Alliander incurs 'stewardship costs' in the staff departments for the shareholdings in its participating interests. These are not generally recharged to business units. Finally, capital expenditure in the context of the energy transition is recognised in this segment. External operating income in 2017 was up by €18 million compared with 2016, at €159 million. Operating profit for 2017 amounted to €64 million negative (2016: €67 million negative). The improvement was partly a result of lower vacancy and stewardship costs, offset in part by higher costs for new activities. As in 2016, Alliander invested some 3% of revenues in asset innovation, facilitating energy transition and new activities.

Balance sheet

The abridged balance sheet as at 31 December 2017 is shown below.

€ million	Alliander N.V.	
	31 December 2017	31 December 2016
Assets		
Non-current assets	7,552	7,335
Current assets	517	400
Assets held for sale	8,069	7,735
Equity and liabilities		
Total equity	3,942	3,864
Non-current liabilities	3,393	3,308
Short-term liabilities	734	563
Total equity and liabilities	8,069	7,735

The following notes explain the significant changes in the balance sheet as at 31 December 2017 relative to the situation as at 31 December 2016. Detailed information on balance sheet items is given in the financial statements.

Non-current assets

Non-current assets as at 31 December 2017 increased by €217 million compared with 31 December 2016. This increase is mainly a consequence of the higher capital expenditure on the networks and meters in relation to the associated depreciation charges.

Current assets

Current assets rose to €517 million compared with the balance at 31 December 2016. The increase of €117 million compared with 2016 was mainly a result of an increase in net cash and cash equivalents and trade and other receivables.

Equity

Equity as at 31 December 2017 increased by €78 million compared with the level as at 31 December 2016, to €3,942 million. This increase is mainly accounted for by the net profit for 2017, amounting to €203 million, less the dividend distribution in 2017 relating to 2016 (€104 million). A summary of the movements can be found in note [12] of the financial statements.

Current and non-current liabilities

The amount of non-current liabilities was up by more than €85 million compared with 31 December 2016. The increase is due mainly to drawing €75 million of European Investment Bank (EIB) financing.

The current liabilities as at 31 December 2017 were up by over €171 million compared with the position as at year-end 2016, at €734 million, mainly as a result of the amounts drawn under the ECP programme.

Shown below is a summary of the cash flow statement for 2017.

Cash flows

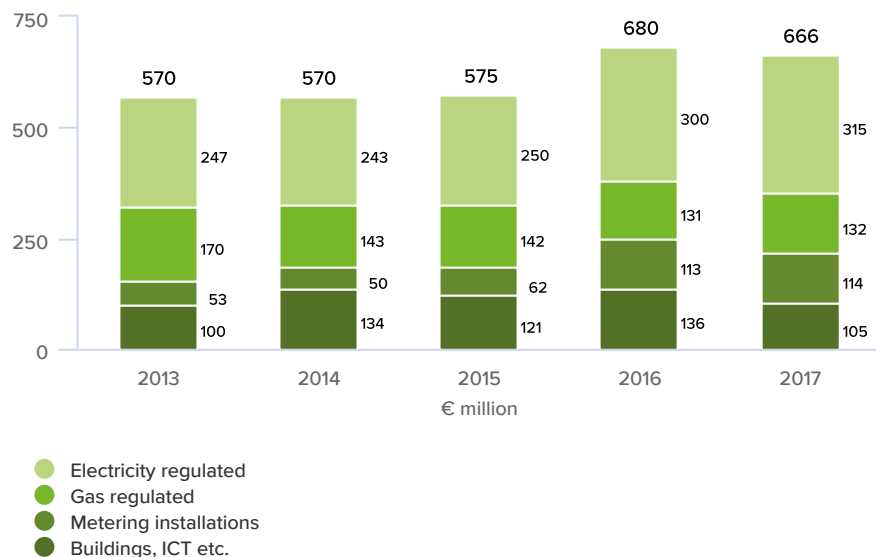
Consolidated cash flow statement

€ million	2017	2016
Cash flow from operating activities	454	376
Cash flow from investing activities	-549	-232
Cash flow from financing activities	148	-185
Net cash flow	53	-41

The cash flow from operating activities in 2017 amounted to €454 million, compared with €376 million in 2016. The increase of €78 million compared with 2016 is largely accounted for by a rise in the operating profit, mainly because of the increase in regulated tariffs (€105 million).

The cash outflow from investing activities in 2017 amounted to €549 million, which is €317 million higher than in 2016. The increased cash outflow overall in 2017 is explained by the cash inflow as a result of the exchange of service areas (€359 million) in 2016. Third-party contributions to investments in 2017 amounted to €96 million, which is lower than in the previous year (€99 million).

Investments



Despite a decrease in capital expenditure in gas networks, the level of capital expenditure has risen by €96 million in the past five years, an increase of 17%. Apart from the increased investments in the electricity networks and smart meters, there has been an increase in other investments as well, including higher levels of investment in telecommunication networks (both optical fibre networks and mobile data networks). In 2015 and 2016, there was also investment in buildings connected with the renovation of the offices in Duiven and Arnhem, with their sustainable and energy-efficient credentials.

Alliander funded the difference between the cash flow from operating and investing activities (€95 million negative), and the dividend payment of €104 million by drawing the first tranche of the EIB loan facility and ECP financing. Cash and cash equivalents rose by €53 million, bringing the total financing cash flow to €148 million.

Free cash flow

The free cash flow in 2017 totalled €95 million negative, compared with a positive inward free cash flow in 2016 of €144 million. The decrease of €239 million compared with 2016 was mainly a result of the cash flow from the exchange of service areas.

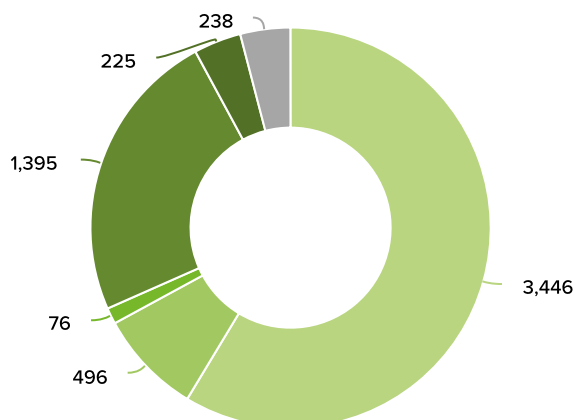
€ million	2017	2016
Cash flow from operating activities	454	376
Cash flow from the reparcelling operation/Sale of HV grid	7	359
Investments and divestments in non-current assets	-652	-690
Construction contributions received	96	99
Free cash flow	-95	144

Financial position

Capital structure

Various instruments are used to finance the maintenance and expansion of the energy networks and other activities. For this finance, Alliander is dependent on its shareholders, institutional investors and banks. Alliander's creditworthiness is rated by rating agencies that publish their findings. Alliander capital structure as at year-end 2017 was made up as follows:

Capital structure



- Equity
- Subordinated perpetual bond loan
- Subordinated loans
- Euro Medium Term Notes
- Euro Commercial Paper
- Other

As the capital structure reveals, Alliander is 59% equity-financed. Equity is provided by the shareholders and is increased by the partial retention of the net profit each year. The shareholders receive a percentage of the net profit as dividend each year. Holders of the subordinated perpetual bond loan receive a fixed return on their investment out of the reported profit provided a dividend is declared. Alliander does not have access to finance by issuing new shares to private investors because private shareholdings in Dutch regional network companies are prohibited by law. To raise external finance, Alliander needs to turn to providers of borrowed capital. These are mainly institutional investors that buy debt instruments issued by Alliander. To meet its long-term finance requirements, Alliander has issued five bond loans that are quoted on the stock exchange, including a subordinated perpetual bond loan. The loans are listed on the Luxembourg Stock Exchange and NYSE Euronext Amsterdam. In addition, Alliander has entered into a loan agreement with the EIB for the modernisation and expansion of Liander’s electricity networks. To meet its variable finance needs in the short term, Alliander regularly issues short-term commercial paper. Additionally, Alliander has a contracted committed credit facility with a number of banks to provide a backup source of finance should it not be possible to raise the necessary funds on the capital market or the money market.

The development in the net debt position during the year 2017 is shown below.

Development of net debt position



Net debt position

€ million	31 December 2017	31 December 2016
Long-term interest-bearing debt	1,553	1,483
Short-term interest-bearing debt	231	81
Finance lease liabilities	150	168
Gross debt	1,934	1,732
Cash and cash equivalents	101	48
Current financial assets	-	15
Investments held for lease obligations related to cross-border leases	193	224
Total cash and cash equivalents and investments	294	287
Net debt in accordance with the annual financial statements (IFRS)	1,640	1,445
50% of the subordinated perpetual bond loan	248	248
Net debt on the basis of Alliander's financial policy	1,888	1,693

The net debt position rose by €195 million to €1,888 million as a result of drawing ECP financing and the first tranche of the EIB loan.

Events after balance sheet date

Issue and repurchase of perpetual bonds

On 29 January 2018, Alliander announced its intention to issue a new perpetual subordinated 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 were issued at a coupon rate of 1.625% at an issue price of 99.144%. At the end of the tender period on 5 February, investors holding a total of some €413 million of bonds from the 2013 issue had registered for repurchase by Alliander. In accordance with the loan terms and conditions, the remaining €87 million of bonds outstanding will be redeemed at 100% of face value by exercising the first right of redemption on 27 November 2018. The carrying amount of the hybrid loan at 31 December 2017 was €496 million. Equity grew by €71 million as a result of this transaction.

In accordance with Alliander's financial policy, the new bonds will be regarded as 50% equity for calculating financial ratios. The outstanding bonds from the 2013 issue will be counted as 100% debt for rating purposes with effect from 30 January. The current recognition as equity will be continued under IFRS.

Our sustainability performance

During 2017, we saw the effects of embedding our social programmes soundly in our organisation. A particular point is that we made considerable progress on making our main CO₂-related sources more sustainable by purchasing green production in the Netherlands and achieving energy-efficient buildings.

Areas of attention

Our CSR efforts are aimed at three areas of attention. First of all, Alliander wants to contribute towards the energy transition by giving all customers equal access to renewable energy. You can read more about this in the About Alliander and Customers chapters. In addition, as a large employer, we take responsibility for a social and inclusive organisation. A socially responsible company is an inclusive company where everyone gets a fair chance to reach their full potential. We actively manage diversity and inclusiveness in our HR policy, for example, in recruitment and selection, training and development. You can read more about this in the Employees chapter. Finally, Alliander has ambitious targets for climate-neutral and circular operations including working with partners in our supply chains. In 2017, we developed our strategic goals for the energy transition and inclusive, sustainable operations. We have defined our contribution to the Sustainable Development Goals in detail.

Climate-neutral operations in 2023

Alliander had a substantial CO₂ footprint totalling 632 kilotonnes in 2017 although CO₂ emissions fell by 192 kilotonnes during the year compared with the year before, representing a reduction of some 23%. The effect of our greening policy was clear for the second successive year. Our ambition is to be fully climate-neutral by 2023; in other words, on balance Alliander will have zero CO₂ emissions as a result of our network activities, offices and vehicles in 2023. Our programme on reducing and greening our CO₂ emissions is moving us step by step towards more sustainable operations. High-impact measures were the hand-over of our energy-neutral head office in Arnhem and accelerating greening of our overall footprint.

We adopted our targets for climate-neutral operations in 2016. All comparative energy and climate figures in the annual report relate to the previous year.

Emissions from network and leakage losses

90% of our gross emissions are caused by network and leakage losses that arise mainly from the distribution of electricity and gas. Network losses cost us about €60 million in 2017 and can only be mitigated to a limited extent. Nevertheless, we are working to reduce our technical and administrative network losses each year.

Technical network losses

In 2017, technical network losses fell by 1% in absolute terms compared with 2016. Technical network losses are closely related to economic conditions. The reduction programme for technical network losses is being pursued as diligently as ever and focuses on measures for savings at our stations and better day-to-day management of the network. In addition, each year we are replacing grey cast-iron gas pipes at various locations for safety reasons and to reduce gas leakages.

Administrative losses

In absolute terms, our administrative network losses were the same as in 2016. Administrative network losses arise in part from fraud including illegally drawing off energy to grow cannabis. We rely partly on the police and judiciary, with whom we work closely, to give us active and focused assistance in our efforts to fight fraud. The digitisation of our networks is supporting the fight against energy fraud. The fall in 2017 depended mainly on better detection of fraud and billing and collecting outstanding amounts.

Greening network losses with renewable energy

Alliander is greening its network losses by generating additional renewable energy in the Netherlands. We have made a deliberate decision to shift the purchase of energy to meet our network losses to energy from new investments in renewable sources in the Netherlands. This will allow us to ensure that our network losses are low-carbon and we will be supporting the objective of renewable energy generation. In 2017, we greened 114 kilotonnes of our total network losses with Guarantees of Origin.

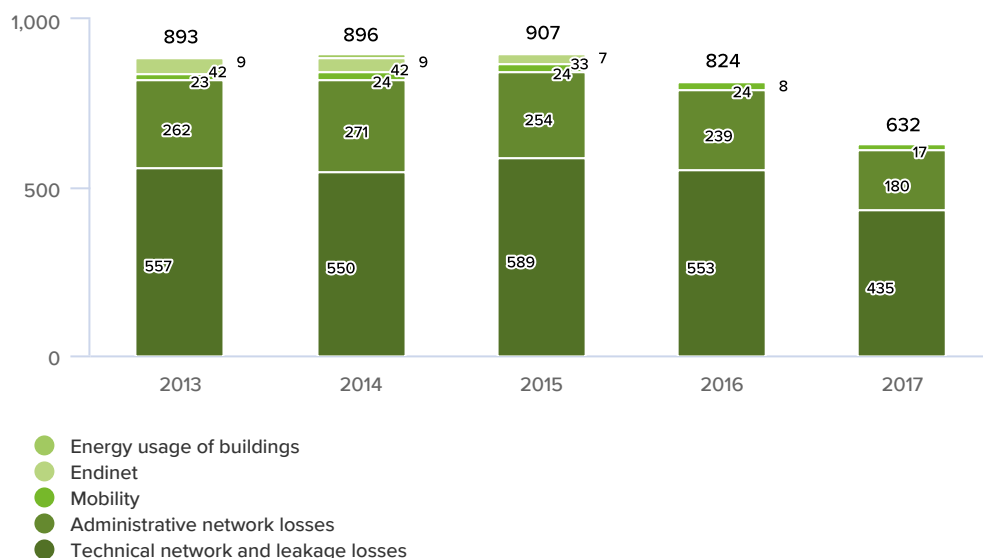
In 2017, we purchased Guarantees of Origin from the new Kattendrecht wind farm in Breda. This fully offset our emissions from buildings and IT processes. Our energy-saving and energy-neutral construction and renovation policy remains in place.

Vehicle and buildings emissions

The concentration of activities and reduction in the number of offices in our distribution area combined with the new way of working are leading to lower energy consumption. Our CO₂ emissions from buildings fell by 10% compared with 2016. The remaining emissions have been greened.

We introduced a new mobility programme in 2017. From 1 January 2018, we will move to a different reimbursement system to encourage prudent travel. The emissions criteria for our lease cars have been tightened to 100 g/km and steps have been taken to make electric cars more accessible. During the year we once again invested in a more efficient vehicle fleet: all of our vans have been fitted with speed limiters (Ecodrive). The CO₂ emissions from vehicles fell for the first time by 2% compared with 2016.

Alliander's CO₂ emissions



The highest step on the CO₂ performance ladder

Our CO₂ approach and methodology were externally assessed on the basis of the CO₂ performance ladder. Certification on the CO₂ performance ladder provides proof of insight into the company's own footprint (level 1), the possible reduction measures (level 2) and the competence to actually implement these measures (level 3), make insights transparent (level 4) and initiate innovations with supply chain partners (level 5). The CO₂ performance ladder is often used as a tender award criterion. In 2017, we maintained level 5 on the Ladder. This means that we know the CO₂ emissions of our A-suppliers, have achieved the level 3 and 4 objectives, and are publicly committed to the government's CO₂ reduction programme. We are proud of this step but to retain our excellent position on the CO₂ performance ladder we must continue mobilising and challenging our suppliers to reduce emissions throughout the supply chain.

Climate risk and adaptation

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

Supply chain responsibility with partners

We achieve a considerable part of our CSR performance by working with partners, managing the value and product chains where we have impact as a result of our financial expenditure or the existence of specific risks. Our Socially Responsible Procurement (SRP) policy pays particular attention to the three sustainability pillars: circularity, CO₂ and labour participation.

A sustainable relationship with our suppliers

With an annual procurement volume of about €900 million, we are a major purchaser of products and services in the Netherlands. Together with our suppliers, we can make a major contribution to sustainability. Sustainable procurement is an integral part of our tender invitation/evaluation criteria. Our outsourcing policy incorporates provisions relating to human rights, working conditions, use of raw materials, recycling and/or CO₂ emissions. All suppliers contracted by Alliander are required to commit to the 'Alliander Suppliers Code of Conduct.' Under this code, which is based on OECD guidelines, our suppliers (and their suppliers and manufacturers) must adhere to ethical and fair business practices. Infringements of the code can lead to sanctions such as termination of the contract or temporary suspension of work with or without notice of default. Regular audits are conducted in which compliance with the Code is discussed. Compliance with chain aspects and monitoring of possible discussion points are part of the audit reports. If we work with companies in low-wage countries, we conduct risk-based audits of these suppliers. In 2017 14 audits were carried out.

In addition to the customary quality and product checks, we look at elements of CSR such as compliance with universal human rights, working conditions, health and safety and the environment. We work with independent external parties who are familiar with and can assess local conditions for the CRS audit. No critical deficiencies in these themes were reported at our suppliers during the year. In addition to the Code of Conduct, 70.4% of our goods and services were purchased on the basis of SRP statements in 2017 (2016: 71%). This supports our circular procurement objective in the Netherlands. For example, with the SRP statements we encourage suppliers to employ people at a distance from the labour market to work on our products and services. Alliander reports each year on the number of new suppliers screened for SRP. In 2017, SRP statements were entered into with 16% of new suppliers. We ask suppliers which do not have a SRP statement to register on the FIRA Platform (www.fira.nl). These suppliers are requested to share their own sustainability results on the FIRA platform. FIRA assures the quality of the information supplied. The platform brings parties together and gives us more insight into the sustainability performance of suppliers. FIRA prepares its reports in conformity with the international CSR standard: ISO 26000. Registration gives the supplier insight into sustainability performance and ambitions. Alliander requires work to be performed in line with safety protocols and standards for working with gas and electricity such as VIAG and BEI. Suppliers' staff must comply with these.

Outsourcing, investment and production in other countries sometimes lead to an increased risk regarding the recognition and observance of fundamental human rights, safety and the environment. An organisation can involuntarily become involved in dubious practices such as child labour. The FIRA and ISO 26000 principles help us draw suppliers' and chain partners' attention to this. We make active checks on possible problems in the chain in the case of higher-risk tenders, such as the Fair Meter project. As well as advance checks, we also carry out on-site audits at contract parties. In the event of infringements, we end the business relationship or impose other sanctions in line with the contract and the Alliander Suppliers Code of Conduct.

First resource passport

In early 2017, Liander and its suppliers AVK Plastics and Kiwa Technology developed a format for the resource passport. This is used to provide greater insight into the materials used in products we purchase. The passport also gives insight into the sources of materials used. The AVK Plastics inspection cover was the first product to be given a resource passport. The format and instruction manual are available on www.alliander.com/nl/over-alliander/leveranciers/grondstofpaspoort

Circular operations

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

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

Circular procurement demands intensive co-operation with our suppliers. Underlining our commitment to this policy, we became one of the first 20 signatories of the Circular Procurement Green Deal with the aim of learning from each other's experiences when starting up circular procurement processes and to speed up circular purchasing. The more than 60 participants have a great deal of knowledge and experience. Alliander makes a major contribution to these objectives, involving such things as protective clothing, transformers, redeveloping office space, coffee cups, furniture and fair meters.

In 2016, we integrated circular procurement into our purchasing processes. Each quarter we report on the percentages of circular procurement and recycling. There is a clear roadmap for achieving our targets. The percentage of circular procurement at the end of 2017 was about 6% thanks mainly to the first resource passports for cables which show that they include recycled materials and can be recycled. The first pilot with circular cables which demonstrably contain more recycled material will start in 2018.

Green networks

Alliander is an initiator of the Green Networks platform consisting of several national infrastructure managers and which is working to create a climate-neutral and circular national infrastructure sector.

In 2017, the first circular cable was laid and there was intensive work on the Petaplan: the generation of large quantities of sustainable energy on land owned by Rijkswaterstaat and ProRail. The Ministries of Infrastructure and Water Management and of Economic Affairs and Climate Policy are involved in the project.

During the annual Springtij event, the partners in the Green Networks (Alliander, Enexis, Gasunie, ProRail, KPN, Stedin, TenneT and Rijkswaterstaat) signed a mission statement on cooperation on Impact Measurement and Sustainable Development Goals.

Landis+Gyr: Fair meter can be even fairer



Alliander is working with Stedin, JUVA and Enduris and meter suppliers Landis+Gyr and Floniskra on the design of new smart meters to create a sustainable version: the Fair Meter. Working with Landis+Gyr, Alliander developed the Fair Meter Pilot - a new, demonstrably more sustainable design. This led to a new generation of electricity meters with a sharp reduction in the use of raw materials as one of the benefits. In the past year, Landis+Gyr has developed a meter that uses 25% less plastic and 35% less metal. Product manager Joe Andrews of Landis+Gyr wants to go further.

Landis+Gyr has over 100 years' experience in finding solutions to help consumers use energy in a better way. In the case of smart meters, this involves offering more insight into energy consumption and reducing the burden on the environment. "As a business, we use valuable raw materials", Joe explains. "And we manufacture products with a long but not indefinite lifespan. We see it as our responsibility to approach this sensibly and carefully. That's why we want to do all we can to make the fairest possible energy meter for our customers." According to Joe, a fair meter is one that creates more social and economic value during manufacture and use than it costs. He sums this up as, "The meter must be fair for the manufacturer, fair for the supplier, fair for the customer and fair for the end-user".

Joe says that, looked at carefully, the last version of the fair meter was already a fair meter in production methods, raw materials usage and transparency of processes. "But that didn't stop us from looking for ways to make it even fairer. The first thing we did was significantly reduce the use of plastic and metal in the design. One challenge was to find ways of using recycled plastic. The parts are so specific that it is difficult to find suitable high-quality materials." Joe knows that the new meter is as fair as it can be. Nevertheless, Landis+Gyr continues to look for improvements. "The 'Fair meter' concept is not the final aim but an ongoing process."

Network operators Alliander and Stedin have been closely involved in the development process. "It's safe to say that the cooperation with Alliander was what drove and motivated us to think outside the box and devise ground-breaking improvements. We collaborated transparently and openly and shared information, which is by no means something you can take for granted. We are delighted that parties like Alliander and Stedin always had an eye for the necessity for a fair meter."

Looking ahead: what you can expect from us

Results

Given the regulated status of the majority of Alliander's operations, the existing regulatory system and the changes in tariffs in 2017, Alliander expects to report a higher operating profit in 2018 than in 2017 (barring unforeseen circumstances and incidental occurrences).

Investments

Gross capital expenditure on the networks, relating mainly to replacement investments and expansion, but also on investments relating to the energy transition and ICT, is expected to total more than €700 million in 2018. The level of our long-term investment programme will be dictated in part by the extent to which decentralised generation and feed-in to the power grid expands. The mass roll-out of smart meters begun in 2015 will be at about the same level in 2018 as in 2017 and is expected to involve an investment in excess of €100 million in 2018.

Financial policy

Alliander's financial policy is aimed at preserving financial strength and flexibility, as well as ensuring good access to the capital market at all times. This is achieved by maintaining as a minimum a solid A rating on a stand-alone basis and by ensuring we have a steady repayment schedule and a balanced investment plan, keep operating costs under control, have at our disposal committed lines of credit and hold sufficient reserves of cash, among other things.

Sustainability

As all the key steps in our ambitious programmes are in place, we will again be making major progress towards climate-neutral and circular operations in 2018. With respect to CO₂ reduction, additional attention will be given to vehicle emissions, with new policies and by moving in a sustainable direction with our employees. We will boost the greening of our energy-related emissions. In addition we will work closely with our suppliers to raise the level of knowledge of circular materials usage in the supply chain and to improve our combined procurement performance.

Led by the SDGs and working with other infrastructure managers, a feature of 2018 will be sustainable changes in our chains. The initial action will be on tackling recurring problems that hinder sustainable innovation and system failures.

Details of our various plans and goals can be found in the Alliander Annual Plan 2018 on the website www.alliander.com.

What have we learned?

Alliander always aims to perform its duties and activities to the best of its ability. But certain incidents, developments and events can still have unforeseen consequences. We want to learn from these experiences in order to further enhance the quality of our organisation. In this section, we present some key moments and events in 2017.

Customer communication during power outage in Amsterdam

What happened?

In August a street lighting failure occurred on the Overtoom in Amsterdam. Various local residents contacted us to say this made them feel unsafe. Our target is to resolve such faults within ten days, so we immediately planned the necessary action. The power supply in the area needed to be cut off to carry out the repair safely. As always, customers were sent a letter four working days in advance notifying them that there would possibly be no electricity between 9am and 3pm. The owners of businesses on the Overtoom – including a hotel, a chemist store and six shops – were not happy about this. No electricity means no electronic payments, no lighting and, hence, no income. These business owners felt we were not listening to them, so they took their complaint to the media.

What have we learned?

We entered into a dialogue with the businesses involved. We explained what the problem was and what our work entailed. And, above all, we listened. We noticed that customers find it annoying when they are not consulted about the best time to carry out the work. The business owners also found that the letter was too impersonal and sent too late. Customers expect a proactive dialogue from Liander in situations like this. We learned that customer expectations have changed and that we as a network operator must do more to minimise the inconvenience for local businesses and residents when carrying out such repairs.

Evaluation of renewed standby and outage response shifts

What happened?

In October 2016, the standby and outage response rosters for our engineers were adjusted to prevent violations of the Working Hours Act. The aim was twofold: to reduce the health & safety risks for our employees and customers that arise from frequent and long overtime hours; and to bring the shifts more into line with the actual outage pattern as most failures occur after 5pm. The increased frequency of outage response shifts means that fewer colleagues are needed for the outage pool and staff can be allocated more efficiently. After six months we evaluated the adjusted standby and outage response shifts, partly because the engineers said they were unhappy with the new rosters.

What have we learned?

Following the introduction of the new rosters violations of the Working Hours Act have halved in number. And the more compact outage response organisation enables a smarter deployment of staff. The downside is the additional strain on some of our engineers. In several regions, a substantial number of our colleagues are doing more than the agreed eleven or twelve shifts annually. This impinges on their personal life. To resolve this issue, Alliander carried out a further study into staggered working hours and standby outage staffing. Trials were conducted to test new models. The aim is to put a new model in place in 2018.

A thousand reactions to reliability of smart meter

What happened?

A laboratory test of the University of Twente demonstrated that the smart meters could be tampered with to give faulty readings. Netbeheer Nederland (Association of Energy Network Operators in the Netherlands) was informed of the test results towards the end of 2015. In 2016, we investigated tens of customer complaints about the smart meters. No faulty readings were found. The possible unreliability of the smart meter prompted a consumer watchdog programme to call upon customers to come forward if they had doubts about their energy consumption after the smart meter was installed. The programme received some 3,000 reactions from customers, including one thousand reactions in the Liander service area.

What have we learned?

In March, Liander set up a special team to deal with all the reactions we received. In our interviews with the customers we discussed their energy consumption and possible reasons for the high meter readings. In addition, we performed administrative analyses at customers and, in a few cases, also consumption analyses using a second meter for reference. We found that customers felt that their complaints about high energy consumption were not always handled well, and often did not understand how this high energy consumption came about. As a result, they did not trust the smart meter, even though it worked properly in all cases. One important learning point for Liander was to listen carefully to customers and to be more active in helping them to understand why the energy consumption was higher than expected.

Statement by the Management Board

In Control Statement

As the Management Board, we are responsible for the adequate design and effectiveness of our risk management and control system. In 2017, we evaluated the design and effectiveness of this framework, based in part on the business control information, the Internal Audit reports and the management letter from the external auditor. The outcomes of this evaluation were periodically discussed with the Supervisory Board.

The risk management and control system cannot provide absolute assurance that the corporate objectives will be achieved, nor can it give any absolute guarantee that material errors, losses, fraud or violations of legislation and regulations will not occur in the processes or in the financial reporting.

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

Statement of responsibility by the Management Board

We state that:

1. the financial statements provide a true and fair view of the assets, liabilities, financial position and profit of Alliander N.V. and its consolidated companies;
2. the additional information provided by the Management Board, as included in this annual report, provides a true and fair view of the position as at 31 December 2017 and of the business during the 2017 financial year of Alliander N.V. and its group companies, the results of which are included in the financial statements; and
3. the key risks to which Alliander N.V. is exposed are described in the annual report.

Arnhem, the Netherlands, 16 February 2018

Ingrid Thijssen, CEO

Mark van Lieshout, CFO

Corporate governance



Corporate governance

Focusing on the governance of listed companies, the Dutch Corporate Governance Code (the Code) provides guidance for effective cooperation and management. Governance is about management and control, about responsibility and influence, and about supervision and accountability. The revised Code was published on 8 December 2016 and was transposed into Dutch law effective from 1 January 2018. It replaces the 2008 Code starting from the 2017 financial year. Accordingly, the report for the 2017 financial year is the first to be prepared in accordance with the revised Code.

As an energy network operator with an important social role in Dutch society, we subscribe to the importance of effective management and supervision, good 'checks and balances' and transparency. For this reason, Alliander - though not a listed company - voluntarily applies the Dutch Corporate Governance Code.

Revised Code

The revised Code is subdivided into seven themes:

1. long-term value creation;
2. risk management;
3. effective management and supervision;
4. culture;
5. remuneration;
6. relationship with shareholders;
7. clarification of requirements as to quality of explanation.

The 'comply or explain' principle has been maintained. The full text of the Code is available at www.mccg.nl.

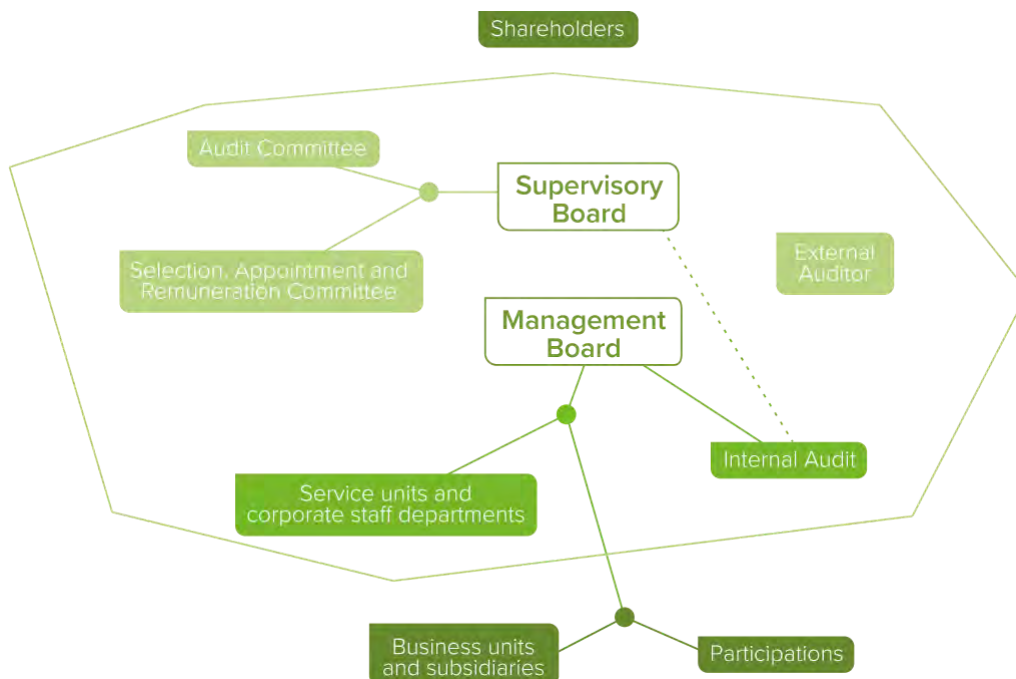
This chapter of the annual report that deals with the outlines of the corporate governance structure and the compliance with the Code will be put to the General Meeting of Shareholders as a separate agenda item. The meeting will take place on 4 April 2018.

Corporate governance structure in outline

General

Alliander N.V. (Alliander) is a public limited company according to Dutch law with a two-tier governance structure. The company is managed by the Management Board, while supervision is carried out by the Supervisory Board. These bodies act independently of each other and both are accountable for the performance of their duties to the General Meeting of Shareholders. The shares of Alliander are held by Dutch provinces and municipalities and are not listed on the stock exchange.

The governance structure is based on Book 2 of the Dutch Civil Code, the Code, the company's articles of association and various sets of internal rules and by-laws. In 2017, the by-laws of the Management Board, the Supervisory Board, the Audit Committee and the Selection, Appointment and Remuneration Committee were adjusted to the revised Code. The Gas Act and the Electricity Act 1998 also contain various provisions that influence the company's governance. In addition, Alliander operates a Code of Conduct (including a Guideline on Prevention of Market Abuse) and a Whistleblower Policy. The articles of association, various sets of rules and by-laws and other corporate governance documentation are posted on the website of Alliander.



Management Board

General duties and responsibilities

The Management Board is tasked with the management of the Alliander Group. This responsibility includes:

- formulating and realising the strategy targeted at long-term value creation and Alliander's policy, including the achievement of the envisaged results;
- identifying and managing the risks relating to the company's strategy and the company's activities;
- complying with all relevant laws and regulations;
- developing a corporate culture aimed at long-term value creation.

Certain decisions of the Management Board are subject to the approval of the Supervisory Board and/or the General Meeting of Shareholders. The Management Board carries collective responsibility for the management of Alliander. The allocation of tasks agreed among its members has been approved by the Supervisory Board.

By-laws

In addition to the statutory regulations and the relevant provisions in the articles of association, the Management Board must adhere to the by-laws of the Management Board. These by-laws have been approved by the Supervisory Board. They set out the composition, duties and powers and the procedures of the Management Board, and also contain rules regarding its relations with the external auditor, the Supervisory Board and the shareholders. In addition, the by-laws contain rules for dealing with an actual or possible conflict of interest and for other positions of the Management Board members.

Appointment

The members of the Management Board are appointed by the Supervisory Board for an indefinite period. Appointments take place with due regard to the diversity policy for the composition of the Management Board as drawn up by the Supervisory Board. The Supervisory Board notifies the Committee of Shareholders of a proposed appointment, and shall not dismiss members of the Management Board without consulting the Committee of Shareholders¹.

The Supervisory Board.

General duties and responsibilities

- The Supervisory Board monitors the manner in which the Management Board implements the strategy for long-term value creation. It regularly discusses the strategy, the implementation of the strategy and the principal risks associated with it.
- The Supervisory Board monitors the manner in which the Management Board performs activities in respect of culture.
- The Supervisory Board supervises the policy pursued by the Management Board and Alliander's operations in general. This includes monitoring the effectiveness of the internal risk management and control systems of Alliander and the integrity and quality of the financial reporting.
- The Supervisory Board submits the nomination for the appointment of the external auditor to the General Meeting of Shareholders.
- The Supervisory Board supervises the functioning of the external auditor and the internal audit function.
- The Supervisory Board supports the Management Board with advice and adopts the remuneration of the individual members of the Management Board.

The Supervisory Board fulfils its duties as a collegiate body with collective responsibility. In the performance of its duties, the Supervisory Board is guided by the interests of Alliander and its group companies, taking into account the stakeholder interests that are relevant in the specific context.

By-laws

In addition to the statutory regulations and the relevant provisions in the articles of association, the Supervisory Board has also adopted by-laws to ensure its proper functioning. These by-laws provide for the composition, duties and powers as well as the procedures of the Supervisory Board. They also set out rules for its relations with the shareholders and the Works Council, as well as for dealing with an actual or possible conflict of interest and for other positions that members of the Supervisory Board may have.

Appointment

The General Meeting of Shareholders appoints the members of the Supervisory Board, upon the nomination of the Supervisory Board. Both the Committee of Shareholders and the Works Council can recommend candidates. The Supervisory Board is in principle obliged to nominate one third of its members upon the recommendation of the Works Council ('enhanced right of recommendation'). The Committee of Shareholders also has an enhanced right of recommendation for the nomination of one third of the Supervisory Board members.

The Supervisory Board has drawn up a profile for its composition, taking account of the nature and activities of the company. The profile covers the following subjects:

1. the desired expertise and background of the members of the Supervisory Board;
2. the desired diverse composition of the Supervisory Board;
3. the size of the Supervisory Board;
4. the independence of the Supervisory Board members.

Appointments or reappointments are made with due regard to the profile.

1 This is a group of shareholders appointed by and from the General Meeting of Shareholders to exercise certain powers on its behalf. These include the power of recommendation, appointment and dismissal of members of the Supervisory Board and powers in relation to the appointment and dismissal of members of the Management Board. For the composition of the Committee, see the website of Alliander.com.

A Supervisory Board member is appointed for a four-year period and may then be reappointed once for another four-year period. The Supervisory Board member may subsequently be reappointed again for a period of two years, which may be extended by at most two years. In the event of a reappointment after an eight-year period, reasons should be given in the report of the Supervisory Board.

The Supervisory Board may suspend any one of its members. Only the Enterprise Section of the Court in Amsterdam can dismiss a Supervisory Board member. The General Meeting of Shareholders can only withdraw its confidence from the full Supervisory Board and cannot dismiss individual Supervisory Board members.

Supervisory Board committees

Members of the Supervisory Board form two standing committees: an Audit Committee and a combined Selection, Appointment and Remuneration Committee. The committees meet independently and do the preparatory work for the full Supervisory Board in specific areas. They report the deliberations and findings of each committee meeting in the meeting of the full Supervisory Board. Decision-making takes place on the basis of these reports. Each committee has its own by-laws, indicating its role and responsibility, its composition and the manner in which it performs its task.

Audit Committee

The committee prepares the decision-making of the Supervisory Board on the supervision of the integrity and quality of the company's financial reporting and on the effectiveness of its internal risk management and control systems. It focuses on, among other things, the supervision of the management regarding the relationship with and the follow-up of recommendations made by the internal auditor and the external auditor, the company's funding policy and financing and its application of information and communication technology, including risks in the field of cybersecurity and the company's tax policy.

Combined Selection, Appointment and Remuneration Committee

The committee prepares the decision-making of the Supervisory Board, focusing at least on: i) drawing up selection criteria and procedures for the appointment of the Management Board and Supervisory Board members, ii) assessing from time to time the functioning of individual Management Board and Supervisory Board members and reporting its findings to the Supervisory Board and iii) making proposals for appointments and reappointments. The Committee also prepares the Remuneration Report.

General Meeting of Shareholders

The shares in Alliander are held directly or indirectly by public authorities (municipalities and provinces). Alliander convenes a General Meeting of Shareholders within six months after the end of the financial year. The agenda of the General Meeting of Shareholders lists which items are up for discussion and which items are to be voted on. The agenda includes the following subjects insofar as relevant:

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

Participation of as many shareholders as possible in the decision-making in the General Meeting of Shareholders is in the interest of the company's checks and balances. All resolutions are passed on the basis of the 'one share is one vote' principle. Resolutions are adopted by an absolute majority of votes, unless the law or the company's articles of association explicitly prescribe otherwise. Extraordinary meetings can be held if the Supervisory Board or the Management Board considers this necessary. The agenda of the General Meeting of Shareholders is determined by the Management Board and the Supervisory Board. Shareholders can also convene meetings and/or put items on the agenda, as provided for in the law and the articles of association.

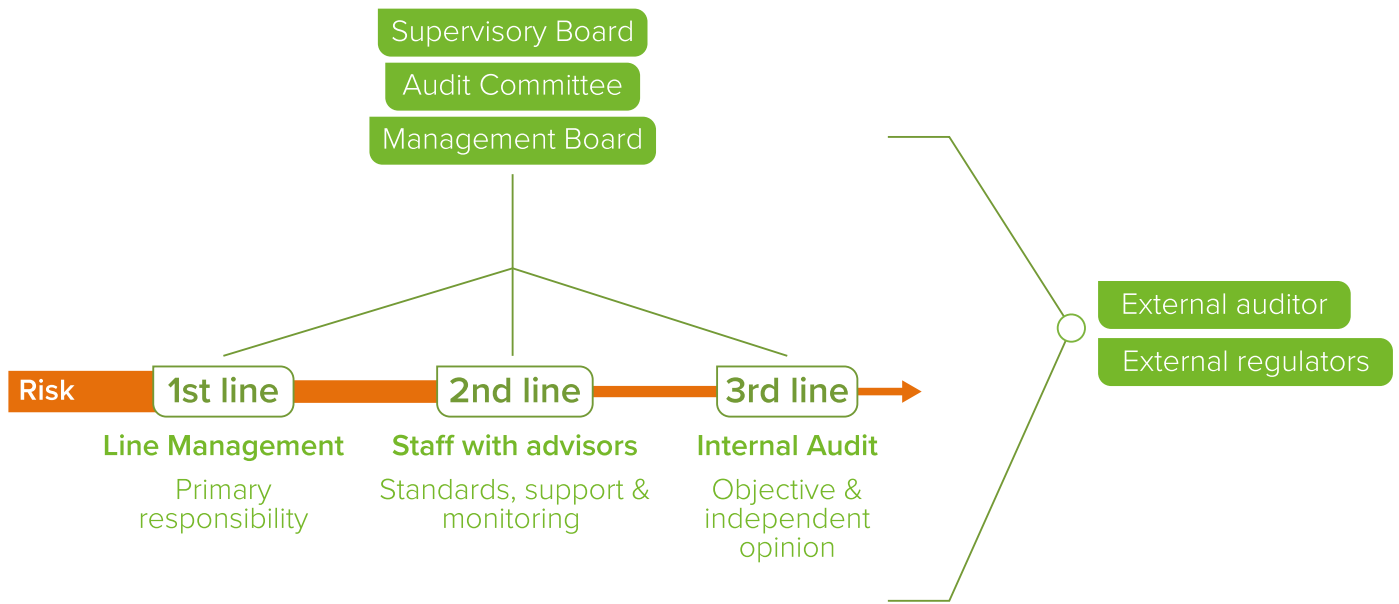
Risk management

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

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

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

- **The Alliander Resilience Committee.** This committee, which is chaired by the CFO, issues recommendations to the Management Board and the management team of Liander on risk acceptance, risk profile, external risk reporting requirements, exceptions of a temporary nature or events that diverge from the applicable risk policy and acceptance. In addition, the committee approves guidelines for Governance, Risk and Compliance arising from approved policy, and makes adjustments in respect of specific risk-related issues. The committee discusses internal and external risk reports, and monitors and advises on the follow-up on internal and external controls and audits. Finally, it also promotes the embedment of risk management and internal control processes within the business units and chains of Alliander.
- **The Management Board.** The members of the Management Board play a proactive role in managing attitudes and behaviours regarding risk management and internal control. Every quarter, the portfolio of top risks is discussed by the members of the Management Board, and the discussion of specific risks is frequently on the agenda. If necessary, they initiate the implementation of additional measures. Moreover, the Management Board monitors the risk management and control system, which it regularly tests against the expectations of, and developments at, our most important stakeholders. The main risks are set out in this annual report at Risk information.
- **The Supervisory Board.** The Supervisory Board supervises the design and effectiveness of the risk management and control system. The portfolio of top risks is discussed every quarter in the Audit Committee. A summary of this discussion is given to the full Supervisory Board. The Management Board provides an explanation of the risk report, which the Audit Committee takes on board in its supervision. Possible adjustments to the risk management policy, including the risk-bearing capacity, are put to the Audit Committee before being introduced.



Internal audit function

Internal Audit is an independent function that provides additional assurance regarding control, effectiveness, efficiency and compliance of operations to the management of Alliander, and particularly to the Management Board. To this end, Internal Audit systematically evaluates the control, risk management and governance processes. Internal Audit functions as a Fraud Disclosure Office within Alliander.

The Internal Audit Director acts under the responsibility of the chair of the Management Board and has direct access to the external auditor and the Audit Committee. The Internal Audit Director attends the meetings of the Audit Committee.

Every year, Internal Audit draws up an audit plan based on risk reports and audit findings, in consultation with the Management Board, the Audit Committee and the external auditor. This plan contains the proposed audit engagements. As well as financial audits, it also covers the implementation of IT, compliance and operational audits. In addition, the plan devotes attention to the interaction with the external auditor. The audit plan is approved by the Management Board, submitted to the Audit Committee and adopted by the Supervisory Board. Internal Audit reports its audit results to the Management Board and the essence of its audit results to the Audit Committee and the Supervisory Board and informs the external auditor. The audit findings of Internal Audit should in any event include: i) any flaws in the effectiveness of the internal risk management and control systems, ii) any findings and observations with a material impact on the risk profile of the company and its affiliated enterprises and iii) any failings in the follow-up on recommendations made by the internal audit function.

External auditor

The Audit Committee advises the Supervisory Board on the nomination for the appointment or reappointment or the dismissal of the external auditor and prepares the selection of the external auditor. The Audit Committee does this, taking into account the observations of the Management Board. Based partly on this input, the Supervisory Board determines its nomination for the appointment of the external auditor to the General Meeting of Shareholders. The main conclusions of the Supervisory Board regarding the nomination and the outcomes of the selection process for the external auditor are communicated to the General Meeting of Shareholders.

The external auditor examines the consolidated and company financial statements of Alliander as well as the statutory financial statements of Alliander's subsidiaries. In addition to an audit opinion, the external auditor also reports his findings each year in the form of a management letter and an auditor's report. The Supervisory Board is permitted to examine the most important points of discussion arising between the external auditor and the Management Board based on the draft management letter or the draft auditor's report. In December 2017, Deloitte issued its management letter, confirming that no material failings were found. The findings about the IT environment in 2016 were largely followed up. Deloitte included recommendations that have been or are being followed up by Alliander. The external auditor also assesses the sustainability information in the report, for which an Assurance report is issued.

In principle, the external auditor attends the meetings of the Audit Committee, as well as the meeting of the Supervisory Board in which the external auditor's report on the annual audit is discussed. Moreover, the external auditor attends the meeting of the Supervisory Board in which the half-year figures are discussed. He also attends the annual General Meeting of Shareholders. At this meeting, he clarifies the audit opinion and answers shareholders' questions about his audit work and on the true and fair view of the financial statements. Effective from the 2016 financial year, Deloitte Accountants B.V. has been appointed as the external auditor for a period of four years with the option of two renewal periods of two years each.

Compliance with the Code

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

Provisions not applying to Alliander

A number of best practice provisions do not apply because Alliander is a company with a two-tier structure, while the shares may exclusively be held by Dutch lower government authorities and are not listed on a stock exchange. In addition, our articles of association stipulate specific requirements concerning shareholder quality and Alliander is not protected by any anti-takeover measures. Moreover, the best practice provisions relating to remuneration in shares, issuance of depositary receipts for shares, financing preference shares and institutional investors are not applicable.

Based on the above, the following best practice provisions did not apply to Alliander in 2017:

- 2.8.2 (informing the supervisory board about request for inspection by competing bidder): Alliander shares are not listed on a stock exchange.
- 2.8.3 (management board's position on a private bid): Alliander shares are not listed on a stock exchange.
- 3.3.3 (share ownership of supervisory board member): under the articles of association of Alliander, shareholders must meet specific quality requirements to be eligible for share ownership. These quality requirements stipulate that only public bodies are eligible for share ownership.
- 4.2.5 (management board contacts with press and analysts): Alliander shares are not listed on a stock exchange.
- 4.2.6 (outline of anti-takeover measures): Alliander is not protected by any anti-takeover measures.
- 4.3.3 (the general meeting of shareholders of a company not having statutory two-tier status may pass a resolution to cancel the binding nature of a nomination for the appointment of a management board or supervisory board member and/or a resolution to dismiss a management board or supervisory board member): Alliander is a two-tier company.
- 4.3.4 (voting right on financing preference shares): Alliander has not issued any financing preference shares.
- 4.3.5 (publication of institutional investors' voting policy): Alliander has no institutional investors as shareholders as referred to in the Code.
- 4.3.6 (report on the implementation of institutional investors' voting policy): Alliander has no institutional investors as shareholders as referred to in the Code.
- 4.4.1 to 4.4.8 (issuance of depositary receipts for shares): no depositary receipts have been issued for Alliander shares.
- 5.1.1. to 5.1.5 (one-tier governance structure): Alliander has a two-tier governance structure.

Departures/qualified departures from the Code

The vast majority of the provisions are adhered to insofar as applicable. For a number of best practice provisions, Alliander adds a qualifying statement and/or does not apply the best practice provision either in part or in whole.

Code Text	Explanation of departures from the Code
<p>Best practice provision 2.2.1: appointment and reappointment periods - management board members. A management board member is appointed for a maximum period of four years. A member may be reappointed for a term of not more than four years at a time, which reappointment should be prepared in a timely fashion. The diversity objectives from best practice provision 2.1.5 should be considered in the preparation of the appointment or reappointment.</p>	<p>Members of the Management Board are appointed for an indefinite period. As the members of the Management Board act from a strategic long-term perspective, a limited appointment period would not be appropriate.</p>
<p>Best practice provision 2.3.2: establishment of committees If the supervisory board consists of more than four members, it should appoint from among its members an audit committee, a remuneration committee and a selection and appointment committee.</p>	<p>Alliander has set up an Audit Committee. As their tasks are closely related, the Remuneration Committee and the Selection and Appointment Committee have, for practical reasons, been combined in the Selection, Appointment and Remuneration Committee.</p>
<p>Best practice provision 2.3.7: vice-chairman of the supervisory board The vice-chairman of the supervisory board should deputise for the chairman when the occasion arises.</p>	<p>The Supervisory Board has decided not to appoint a vice-chairman. The meetings of the Supervisory Board are led by the chair or, in her absence, by one of the other members of the Supervisory Board who is designated for this role by majority vote by the members of the Supervisory Board who are present or represented at the meeting.</p>
<p>Best practice provision 2.4.3: point of contact for the functioning of the supervisory board and management board members The chairman of the supervisory board should act on behalf of the supervisory board as the main contact for the management board, supervisory board members and shareholders regarding the functioning of management board members and supervisory board members. The vice-chairman should act as contact for individual supervisory board members and management board members regarding the functioning of the chairman.</p>	<p>No vice-chairman has been appointed within the Supervisory Board. Each individual Supervisory Board member acts as contact for individual members of the Supervisory Board and Management Board regarding the functioning of the chairman.</p>
<p>Best practice 3.1.2: remuneration policy The following aspects should in any event be taken into consideration when formulating the remuneration policy: i. the objectives for the strategy for the implementation of long-term value creation within the meaning of best practice provision 1.1.1; ii. the scenario analyses carried out in advance; iii. the pay ratios within the company and its affiliated enterprise; iv. the development of the market price of the shares; v. an appropriate ratio between the variable and fixed remuneration components. The variable remuneration component is linked to measurable performance criteria determined in advance, which are predominantly long-term in character; vi. if shares are being awarded, the terms and conditions governing this. Shares should be held for at least five years after they are awarded; and vii. if share options are being awarded, the terms and conditions governing this and the terms and conditions subject to which the share options can be exercised. Share options cannot be exercised during the first three years after they are awarded.</p>	<p>As the Board of Management does not participate in any form of variable remuneration, analyses of possible outcomes of the variable remuneration components are not relevant. As Alliander shares are not listed on a stock exchange, there is no market price for the shares, nor can this be taken into account in the considerations by the Supervisory Board.</p> <p>In addition, the articles of association of Alliander stipulate specific quality requirements that shareholders must meet to obtain shares. Pursuant to these requirements, ownership of shares is limited to public authorities.</p>
<p>Best practice provision 3.2.3: severance payments The remuneration in the event of dismissal should not exceed one year's salary (the "fixed" remuneration component). Severance pay will not be awarded if the agreement is terminated early at the initiative of the management board member, or in the event of seriously culpable or negligent behaviour on the part of the management board member.</p>	<p>If the company terminates a Management Board member's employment contract, it is company policy to award a severance payment equal to one year's salary, based on the relevant provisions in the individual employment contracts. See the Remuneration report for more information.</p>
<p>Best practice provision 3.4.1: remuneration report The remuneration committee should prepare the remuneration report. This report should in any event describe, in a transparent manner, in addition to the matters required by law: i. how the remuneration policy has been implemented in the past financial year; ii. how the implementation of the remuneration policy contributes to long-term value creation; iii. that scenario analyses have been taken into consideration; iv. the pay ratios within the company and its affiliated enterprise and, if applicable, any changes in these ratios in comparison with the previous financial year; v. in the event that a management board member receives variable remuneration, how this remuneration contributes to long-term value creation, the measurable performance criteria determined in advance upon which the variable remuneration depends, and the relationship between the remuneration and performance; and vi. in the event that a current or former management board member receives a severance payment, the reason for this payment.</p>	<p>The Management Board does not participate in any variable remuneration scheme.</p>
<p>Best practice provision 4.2.3: meetings and presentations Analyst meetings, analyst presentations, presentations to institutional or other investors and press conferences should be announced in advance on the company's website and by means of press releases. Analyst meetings and presentations to investors should not take place shortly before the publication of the regular financial information. All shareholders should be able to follow these meetings and presentations in real time, by means of webcasting, telephone or otherwise. After the meetings, the presentations should be posted on the company's website.</p>	<p>Alliander shares are not listed on a stock exchange, but Alliander has issued five stock exchange-listed bonds. Alliander communicates in a transparent manner that is tailored to the target group. Amongst other things, Alliander organises meetings with bond investors, institutional investors and shareholders after publication of the half-year and annual figures. Investor Relations gives advance notice of these meetings by email. Alliander also organises a press conference after publications of the half-year and annual figures. These are announced in advance via the website. In addition, Alliander organises annual (and, if necessary, ad hoc) one-to-ones with rating agencies after publication of the annual figures.</p> <p>Alliander subscribes to the principle of simultaneous provision of information to all shareholders but, in view of the disproportionate costs of deploying resources such as webcasting and special telephone lines, considers it too costly to give all shareholders an opportunity to simultaneously attend the meetings and presentations mentioned in the best practice provision. However, Alliander does ensure that presentations are posted on its website after the meetings.</p>
<p>Principle 4.3 Casting votes Participation of as many shareholders as possible in the general meeting's decision-making is in the interest of the company's checks and balances. The company should, in so far as possible, give shareholders the opportunity to vote by proxy and to communicate with all other shareholders.</p>	<p>The shareholders of Alliander are not given an opportunity to vote at a distance or to communicate with all other shareholders. Historically, there is little need for this, in view of the high attendance at the General Meeting of Shareholders (on average more than 80% of the issued capital is represented at the meeting). In addition, proxy voting forms are enclosed in the convocation to the meeting.</p>

Corporate governance statement

Pursuant to the 'Decree on the content of the Management Board Report' ('*Besluit inhoud bestuursverslag*'), the Code has been transposed into law and designated as the statutory code of conduct for good corporate governance. The decree is an amendment of the Decree on Additional Requirements for the Management Board Report ('*Besluit nadere voorschriften bestuursverslag*') effective since 2004.

Pursuant to this decree, companies that have issued listed shares or bonds are required to include a corporate governance statement in the annual report or publish such a statement on their website.

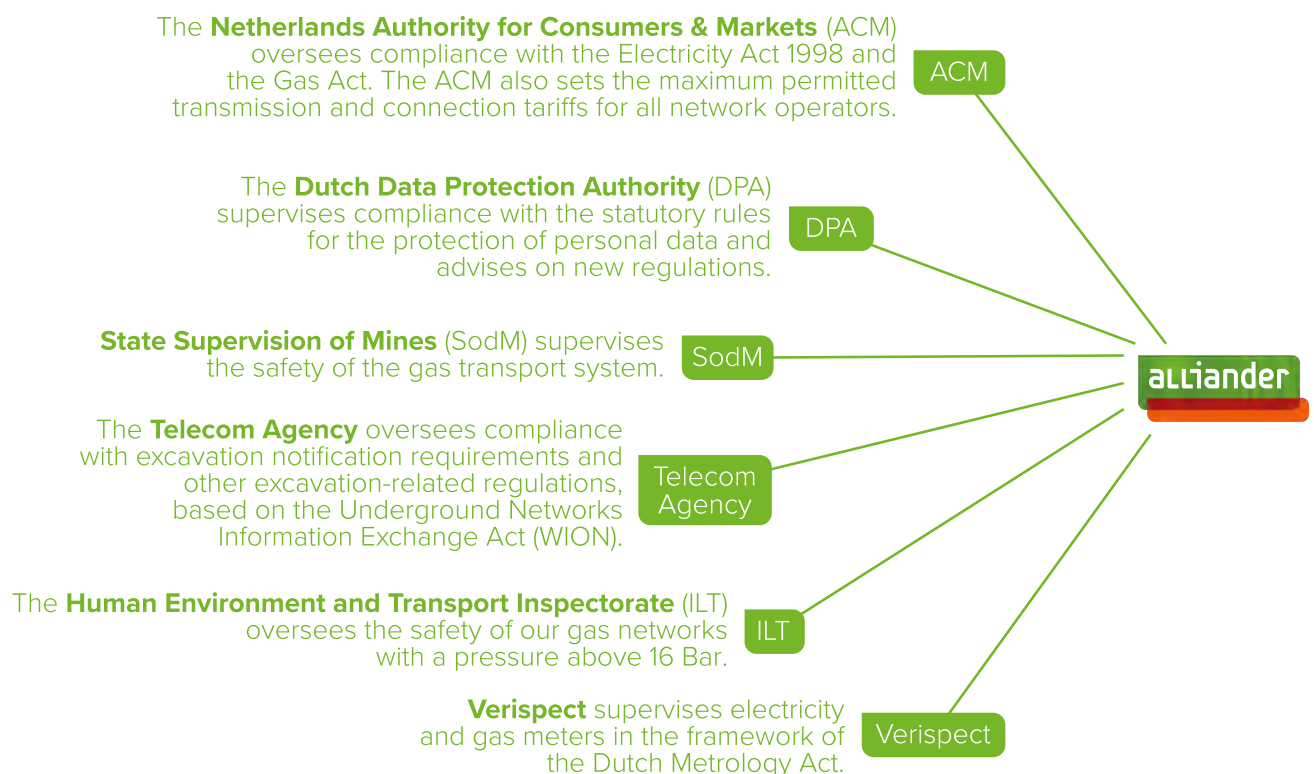
As Alliander has exclusively issued securities, not being shares, that have been admitted to trading on a regulated market located in the EEA (European Economic Area consisting of the EU member states and Liechtenstein, Norway and Iceland), Alliander is exempt from the preparation of a full statement on corporate governance.

The required information that must be included in the corporate governance statement, as referred to in Article 3a (a and d) of the Decree on the content of the Management Board Report, can be found in the following chapters and sections of the report of the Management Board for 2017 and should be considered as included and reiterated here:

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

Supervision

External organisations supervise Liander in its capacity as a network operator that is active in a regulated environment. Among other things, they supervise compliance with specific legislation and regulations.



Integrity

Integrity is a matter of great importance to Alliander, which has put in place various arrangements to safeguard integrity within its organisation.

Codes of Conduct

The Alliander Code of Conduct formally sets out how our employees are required to deal with business partners, company and personal interests, business assets, confidential and non-confidential corporate information and safety as well as the rules of behaviour that apply within Alliander. In this way, we protect customers, associates and the reputation of Alliander, and jointly safeguard a pleasant and safe working environment. If necessary, measures are taken against undesirable behaviour. The Management Board monitors the effectiveness of and compliance with the Alliander Code of Conduct. Every six months, the Management Board informs the Audit Committee of the Supervisory Board of its findings and observations in relation to the effectiveness and compliance.

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

Complaints policies

The integrity policy includes a 'Complaints Procedure for Undesirable Behaviour' and a Whistleblower Policy. Employees can also raise concerns in confidence with Nominated Officers within Alliander. The Whistleblower Policy lays down how malpractice, or suspicions of malpractice, of a general, operational and financial nature must be reported and handled within Alliander. All reports are treated in confidence. A whistleblower can report malpractice, or suspicions of malpractice, without compromising his or her legal rights. Once every six months, the Nominated Officer for whistleblowers provides the Management Board and the Audit Committee of the Supervisory Board with an overview of whistleblowing reports received, the outcomes of the investigations and the whistleblower's reactions to the outcomes of the investigations. Material malpractice and irregularities, including suspicions thereof, are immediately reported to the Supervisory Board. The Whistleblower Policy 2017 encourages employees to report every complaint or undesirable situation within the organisation. This can also be done anonymously and under protection of the Whistleblower Policy. Employees can also call the Fraud Disclosure Office. One FTE from the Internal Audit Department is available to investigate reported situations. Employees of the Fraud Disclosure Office must be members of the organisation of certified fraud investigators (ACFE) with CPE obligation.

Every new employee is informed about the Alliander Code of Conduct for employees by means of a letter. In addition, an Investigation Protocol is available, including the Whistleblower Policy 2017. The Fraud Disclosure Office exclusively investigates reports of fraud. Preventative investigations are the responsibility of the 'first line of defence', optionally with advice from the Governance Risk & Compliance Department (GRC).

These investigations focus on the organisation of the administrative and operational processes and monitor compliance with all requisite separations of functions, signatory powers and mandates. Alliander staff are also exposed to risks in terms of bribery, corruption and conflicts of interest. Customer-facing employees run an increased risk in this respect. The Alliander Code of Conduct makes this explicit in a separate chapter entitled 'Omgaan met zakenpartners en balans in zakelijk en privébelang' (Dealing with business partners and balancing business and personal interests). Violations of the Code of Conduct may lead to disciplinary or other measures, including a written warning, reprimand, suspension or dismissal. In the year under review 18 violations of the Code of Conduct were reported. Two reports resulted in investigations into possible conflict of interest/corruption, of which one is still ongoing. The other report proved unfounded after investigation. Eight cases led to dismissal or termination of a temporary contract.

Guideline for the Prevention of Market Abuse

In 2017, the Insider Trading Policy was transformed into the Guideline for the Prevention of Market Abuse (hereafter: the "Guideline"). The Guideline draws on the Alliander Code of Conduct and the European Market Abuse Regulation. The aim of the Guideline is to set out in clear terms that employees are not permitted to share inside knowledge or use inside knowledge to perform personal trading transactions in financial instruments of Alliander. The Guideline contains the rules of behaviour and is also applicable to the members of the Management Board and the Supervisory Board.

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

Members of the Management Board

From 1 September 2017, the Management Board of Alliander consists of two members: Ms Ingrid Thijssen, chair and Chief Executive Officer (CEO), and Mr Mark van Lieshout, member and Chief Financial Officer (CFO).

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

Career

Ingrid Thijssen (1968) has been chair of the Management Board/CEO of Alliander since 1 September 2017. She has been a member of the Management Board since 1 March 2014. In addition, she is responsible for the business and operational management of the network operator Liander. From 2011 to 2014, she chaired the Management Board of NS Reizigers B.V. Between 1997 and 2011, she held various executive and management roles at Nederlandse Spoorwegen.

Ingrid Thijssen studied law at Utrecht University. She also completed various programmes, including a Strategy Program at the International Institute for Management Development (IMD) in Lausanne and the Advanced Management Program (AMP) of INSEAD in Fontainebleau, France. Ingrid Thijssen is a Dutch national.



Supervisory Board memberships / relevant other positions:

- Member of the Board of Overseers of HU University of Applied Sciences (until 31 December 2017)
- Member of the Supervisory Board of health insurer VGZ
- Member of the Supervisory Board of the Port of Rotterdam Authority²
- Chair of the Employers' Association for the Energy, Cable & Telecom and Waste & Environment Businesses in the Netherlands (WENB)

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

Career

Mark van Lieshout (1963) has been a member of the Management Board/CFO since 1 January 2010. From 2008 to 2010, he was Alliander's Director of Finance, Treasury and Tax Affairs. Between 2003 and 2008, he was finance director of N.V. Nuon Business. Prior to 2003 he held various positions, including CFO of ABB Benelux.

Mark van Lieshout studied Business Economics at VU University Amsterdam. He also completed various Business Programs at the International Institute for Management Development (IMD) in Lausanne and the International Directors Programme (IDP) of INSEAD in Fontainebleau, France. Mark van Lieshout is a Dutch national.



Supervisory Board memberships / relevant other positions:

- Member of the Supervisory Board (also chair of the Audit Committee) of the Canisius-Wilhelmina Hospital

Resigned in 2017

P.C. (Peter) Molengraaf, MBA Chair and CEO (until 1 September 2017)

Peter Molengraaf (1965) was chair of the Management Board and CEO of Alliander until 1 September 2017. From 2005 to 2009 he held various management positions at Nuon, lastly as chair of the management board of the network operator. Prior to 2005, he was active in various roles at Shell.

² Supervisory position at a large legal entity within the meaning of Article 2:142a of the Dutch Civil Code

Members of the Supervisory Board



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

Ms A. Jorritsma-Lebbink (1950), chair

- Nationality: Dutch
- First appointed to the Board on: 1 July 2016
- Term of appointment: 2016-2020 (eligible for reappointment)
- Alliander committee: member of the Selection, Appointment and Remuneration Committee
- Background: Ms Jorritsma has been a Dutch Senate member for VVD (People's Party for Freedom and Democracy) since 9 June 2015, and VVD Senate leader since 24 November 2015. After starting her national political career in 1982 as a member of the Dutch House of Representatives, she served in two successive governments (Kok I and Kok II) as, respectively, Minister of Transport, Public Works and Water Management and Minister of Economic Affairs and Deputy Prime Minister. Ms Jorritsma was mayoress of Almere from 2003 to 2015. She also chaired the VNG (Association of Dutch Municipalities) for seven years.
- Relevant other positions: member of the Supervisory Board of PricewaterhouseCoopers (PWC) Nederland B.V.³, chairwoman of NVP (Netherlands Private Equity and Venture Capital Association), member of the Supervisory Board of HG International B.V.³

Mr G.L.M. Hamers (1952)

- Nationality: Dutch
 - First appointed to the Board on: 7 April 2016
 - Term of appointment: 2016-2020 (eligible for reappointment)
 - Alliander committee: member of the Audit Committee
-
- Background: Mr Hamers was CEO of Vanderlande Industries Holding B.V. from 2013 to mid-2017 and previously CEO of international shipbuilder IHC Merwede (now Royal IC)
 - Relevant other positions: chair of the International Entrepreneurship Committee of VNO-NCW, member of the Government Committee on Export, Import and Investment Guarantees, member of STAK EXE Holding, chair of STAK Koninklijke ICH, member of the Advisory Committee of Airborne Oil & Gas (AOG)

Ms J.G. van der Linde (1957)

- Nationality: Dutch
 - First appointed to the Board on: 29 October 2009
 - Term of appointment: 2017-2021 (not eligible for reappointment)
 - Alliander committee: member of the Audit Committee
-
- Background: Ms van der Linde is Director of Clingendael International Energy Programme. Previously she was part-time professor of Geopolitics and Energy Management at the University of Groningen and, before that, professor in the international energy market at (successively) the University of Amsterdam and Leiden University. Ms Van der Linde was a member of the General Energy Council from 2004 to 2014.
 - Relevant other positions: member of the Supervisory Board of Wintershall Nederland B.V.³, member of the Supervisory Board of Wintershall Noordzee B.V.³, member of the International Advisory Board of KAPSARC

Mr B. Roetert (1956)

- Nationality: Dutch
 - First appointed to the Board on: 19 February 2015
 - Term of appointment: 2015-2019 (eligible for reappointment)
 - Alliander committee: chair of the Selection, Appointment and Remuneration Committee
-
- Background: Mr Roetert is Director/Owner of Advies, Bestuur en Toezicht (AB&T). Previously he was CEO of Schuitema N.V./C1000 B.V. and chair of the Board Chair of Friesland Foods West Europe.
 - Relevant other positions: chair of the Board of Centraal Bureau Levensmiddelen (CBL), chair of the Board of Food Valley NL, chair of the Supervisory Board of Jan Linders Supermarkten³, chair of the Supervisory Board of Scherpenzeel B.V., member of the Supervisory Board of Royal Smilde³, member of the Supervisory Board of Noviflora Beheer B.V., chair of the Advisory Council of SMEVA Valkenswaard, member of the Advisory Council of Helsing Supervisors, Treasurer of Afvalfonds Verpakkingen, Board member of DDL/DDZ Duurzame Levensmiddelenketen

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

- Nationality: Dutch
 - First appointed to the Board on: 30 June 2009
 - Term of appointment: 2016-2020 (not eligible for reappointment)
 - Alliander committee: chairwoman of the Audit Committee
-
- Background: Ms Van der Veer is management consultant on strategy and governance/Director of Stranergy Consultancy. Previously she was CEO of Currence Holding B.V., CEO of KPN Business Solutions Division, member of the Executive Board of Achmea Bank Holding N.V., chair of the Board of Staalbankiers N.V.
 - Relevant other positions: chair of the Supervisory Board of Arcadis Nederland B.V.³, member of the Supervisory Board of LeasePlan Corporation N.V.³, adviser to National Register of Supervisory Directors and Regulators, board member of Stichting Preferente Aandelen Nedap, chair of the Accountancy Monitoring Committee

Report of the Supervisory Board

In this report the Supervisory Board accounts for its supervision in the past year and discusses the most important subjects in which it was involved. In addition, the Supervisory Board reports on the manner in which its committees fulfilled their tasks.

Supervision

Strategy

The strategy initiated in 2015 was given further shape in 2017. In the first quarter of 2017, to achieve economies of scale in the Netherlands, Alliander entered into talks with Provinciale Zeeuwse Energie Maatschappij (PZEM, formerly Delta) about the proposed takeover of the latter's network operation and infrastructure activities (Zeeuwse Netwerkhouding). The takeover bid was extensively discussed with the Supervisory Board, taking the interests of all stakeholders into account. The Supervisory Board approved the submission of a bid for all shares in Zeeuwse Netwerkhouding. Both Alliander and the network company Stedin submitted bids. At the end of March, PZEM decided to continue the process with Stedin. Despite PZEM's choice, the Supervisory Board is convinced that a good takeover proposal was drawn up based on careful consideration. Stedin's takeover of Zeeuwse Netwerkhouding has virtually ended all prospects of achieving substantial economies of scale in the Netherlands.

The energy transition is gathering pace. Last year, numerous activities were initiated last year to drive Alliander's strategy. These included the installation of Europe's first-ever public direct current station in Lelystad and the placement of the first-ever neighbourhood battery in Rijssenhou. In addition, arrangements were made with all municipalities in the service area for a joint approach to the heating transition and the phasing out of natural gas. The Supervisory Board obtained extensive information about the approach to the heating transition and agrees that, based on its role within society, Alliander has a responsibility to facilitate the realisation and integration of the required infrastructure at the lowest possible costs. In addition, the Supervisory Board attended a demonstration of two products for data-driven network management. In the light of the energy transition, the predictability of networks is becoming ever more vital. This makes Alliander's transformation into a data-driven organisation all the more important.

During the year, the new business operations appeared on the agenda several times. We are of the opinion that the governance and reporting adjustments made at our request were instrumental in improving our involvement in the new activities, while also giving the Management Board a clearer and stronger focus on the financial control of the new activities.

Realisation of corporate objectives

Each year, Alliander draws up an operational plan. In this plan, the strategic objectives are translated into concrete and measurable operational targets. The specific annual operational targets are defined in measurable financial and non-financial performance indicators (KPIs), with adjustments being made whenever necessary. The Supervisory Board concluded that the quarterly reports contain adequate information to monitor progress towards the realisation of the operational targets. We are gratified to note that the present annual report shows that the targets for 2017 were largely realised.

The Supervisory Board also looked closely at the impact of the development of results, the balance sheet ratios and the financial position on the company's creditworthiness. We note with satisfaction that the credit ratings of Standard & Poor's (AA-/A-1+ with stable outlook) and Moody's (Aa2/P-1 with stable outlook) were reaffirmed in 2017. In addition, we are delighted with our sustainability rating upgrade from the leading German ratings agency Oekom Research (from B to B+). Sustainability is an increasingly important consideration in the decisions of shareholders and other investors. The Supervisory Board subscribes to the importance of sustainability. Both the credit ratings and the sustainability rating reflect Alliander's strong creditworthiness. This guarantees good access to the capital markets.

Effectiveness of the risk management and control systems

The Supervisory Board discussed the findings from the internal audits as well as the follow-up actions taken on the resulting audit findings. The Supervisory Board monitors the progress of these actions every six months based on 'in control' reports from the Internal Audit Department. We noted that the follow-up on the Internal Audit findings continued to receive the company's full attention in 2017.

In addition, the report following the review of the half-year figures 2017 and the management letter from the external auditor Deloitte, containing the 2017 interim audit findings on the internal controls (and the management's reaction to these findings), was discussed in the presence of Deloitte with the Audit Committee and the Supervisory Board in December 2017. During the interim audit, the auditor found that the internal controls had been improved further compared to the previous year. Deloitte's findings concerning the IT environment were largely followed up, and progress was also made on several other processes, including procurement and sales. Deloitte found no significant flaws. In addition, Deloitte made specific financial and non-financial recommendations that have been or are being followed up by Alliander. One aspect for further improvement is the quality of the forecasts. The Supervisory Board received no indications of any deficiencies in the design and effectiveness of Alliander's risk management and control system with respect to the internal control objectives in the field of financial reporting in the year under review.

In addition, the risk management reports were discussed every quarter. These reports provide insight into the status and development of the management of the top risks Alliander is exposed to. Subjects discussed in this connection included how Alliander can best handle the workload and cybercrime. In addition, our Board performed a risk session aimed at updating Alliander's strategic risks in the changing context from a supervisory perspective. In the opinion of the Supervisory Board, the company conducts a well-considered risk policy, and keeps the Supervisory Board adequately informed about risk-related issues. A description of the main risks is included in the Risk information chapter in the report of the Management Board.

Financial reporting

Every quarter the Supervisory Board received reports from the Management Board in which the actual results were compared with the 2017 budget, the 2017 outlook and the results for 2016. Subjects raised included the reliability of the forecasts, the level of the costs and the size of the Funds From Operations (FFO)/net debt financial ratio. An extensive discussion was conducted with Deloitte about the 2016 financial statements and annual report and the main audit findings.

Attention was also given to Alliander's 2017 half-year report, including the report on the findings of Deloitte. Furthermore, the Supervisory Board reviewed and approved the operational year plan 2018 (including investment budget and dashboard) and deliberated on the 2018-2022 financial plan. The Audit Committee of the Supervisory Board carried out intensive preparatory work on all these matters. We are of the opinion that the financial reporting is adequate and presents a realistic picture of the company's financial position and financial performance.

Recruitment challenge

One concern, particularly in the western part of the Netherlands and in Flevoland, is the unexpectedly strong increase in customer demand for electricity and the simultaneous tightening of the labour market for technicians. Added to this, the pace of the energy transition is steadily accelerating. One major challenge for Alliander involves the recruitment of sufficient skilled technical staff. On several occasions, we extensively exchanged thoughts with the Management Board about measures to minimise the consequences for customers. Measures taken included more work being contracted out, smarter work processes and a large recruitment campaign. Technical staff shortages are expected to continue putting pressure on the implementation of our activities until 2022.

Impact measurement

During a meeting organised for the Supervisory Board, the method used to measure operational impact was explained in detail. In recent years, more attention is being given to the quantification of the impact that organisations have on all stakeholders and society at large. Insight into the social costs and benefits provides valuable input for future investment decisions. Alliander is a leader in the use of impact measurement and the reporting method. Impact measurements were expanded further in 2017. In light of the company's central role in society, the Supervisory Board considers it important for Alliander to provide transparency on the social impacts of its operations.

Safety

Safety is high on the Supervisory Board's agenda. The Management Board regularly informs us about safety issues, such as major gas and electricity outages, the outcomes of related investigations and, even more importantly, the measures taken or proposed. Fortunately, no serious incidents occurred in 2017, while the number of accidents leading to absenteeism decreased. In addition, an Alliander-wide safety audit was carried out last year in order to make further structural improvements to the safety culture within the company. Safety is a top priority. We must never allow our focus on this issue to weaken.

Actual and suspected malpractice and irregularities

The Supervisory Board sees the integrity of staff and the companies we work with as a matter of paramount importance. The chair of the Supervisory Board is immediately informed by the Management Board of any signals of actual or suspected material malpractice and irregularities within the company. The Audit Committee discussed the half-yearly 'Fraud and Incidents' report of the Internal Audit Department. This report contains the issues reported under the Whistleblower Policy and the outcomes of the investigations, as well as any violations of the Code of Conduct applicable within Alliander and any instances of fraud, theft and missing items reported to the internal Fraud Disclosure Office. Last year, several cases of actual or suspected immaterial fraud were reported and adequately acted on by the management. The Supervisory Board is of the opinion that integrity can only be safeguarded if clear rules are backed up by a culture of compliance. Finding the right balance between rules and personal responsibility is essential.

Culture and behaviour

Culture and behaviour are key to the success or failure of an organisation. Apart from procedures and systems to embed the desired culture within the organisation (hard controls), Alliander also has a strong focus on culture, leadership and behaviour (soft controls). Alliander's code of conduct sets out the shared standards and values that apply to the company and its employees, and Alliander also has adopted a Whistleblower Policy. In addition, we received information on the Alliander-wide leadership development and strategy alignment programme. The kick-off for this programme took place during the first leadership day for all Alliander managers on 1 December 2017. The purpose of this gathering was to highlight our common challenges, while also paying specific attention to the leadership characteristics within Alliander. This day was attended by the chair of our Board. We were also updated on the outcomes of the employee satisfaction survey which measures, among other things, the trust, pride and pleasure that our employees feel as members of Alliander. In addition, we received the findings of the internal auditor and external auditor in the field of culture. Leadership and culture were also discussed during our annual meeting with the Works Council. Whilst acknowledging that it is not easy to bring about a culture change in a complex organisation like Alliander, the Supervisory Board notes that the acceleration of the energy transition is placing growing demands on Alliander on all fronts.

The Supervisory Board advocates an open culture within Alliander: a culture in which we treat each other with respect, provide each other with good and timely information, help each other to achieve good results and learn from mistakes. The Management Board and the Supervisory Board play an exemplary role ('tone at the top') in this connection. We do this by asking each other critical questions and discussing differences of opinion, thereby promoting our professionalism. In addition, behaviour and culture form part of the annual assessment of the Supervisory Board and the Management Board.

Composition of the Management Board

A change in the composition of the Management Board took place in 2017. At the start of 2017, the chair of the Management Board/CEO Peter Molengraaf went on a sabbatical of almost six months to reconsider his future and his role within Alliander. After more than eight years in this role, he decided in consultation with the Supervisory Board to tender his resignation effective from 1 September. The Supervisory Board appointed COO Ingrid Thijssen as his successor. We are extremely grateful to Peter Molengraaf for his dedicated service to the company and for the commitment he showed in moving Alliander forward in terms of governance, vision and strategic direction. We wish him every success in the further pursuit of his career. The energy transition heralds a new phase that calls for new leadership. In late 2017, the Supervisory Board opted for a Management Board consisting of two members: Ingrid Thijssen (CEO) and Mark van Lieshout (CFO). This change led to the termination of the position of COO.

Relationship with shareholders

The Supervisory Board's main contact with shareholders is the meeting of shareholders. The full Supervisory Board attended the annual General Meeting of Shareholders on 5 April 2017. During this meeting, the annual report and financial statements for 2016 were discussed, the financial statements for 2016 were adopted, Ms Van der Linde was reappointed as a member of the Supervisory Board and the Management Board and Supervisory Board were discharged from responsibility for, respectively, their management and supervision.

The Supervisory Board takes the view that contacts between the company and shareholders should be extended beyond the formal confines of the shareholder meetings. Alliander has drawn up a policy in outline to promote bilateral contacts between the company and the shareholders. The main purpose of these contacts is to discuss relevant developments, exchange information and respond to shareholder questions and concerns. This policy has been posted on the Alliander website. In 2017, the Management Board consulted five times with the major shareholders. Topics of discussion included the takeover of Zeeuwse Netwerkhouding, the new activities and the approach to the heating transition. The Supervisory Board was consistently kept informed of these contacts.

Also in 2017, a delegation of the Supervisory Board consulted three times with the Committee of Shareholders⁴ about the implementation of the remuneration policy for the Management Board, the proposed change to the composition of the Management Board and the reduction of the Management Board from two to three members. Based on the foregoing, we are of the opinion that shareholders' interests are served in a constructive and careful manner.

Other subjects

Other subjects discussed during the meetings of the Supervisory Board were:

- the outcomes of the annual employee satisfaction survey;
- the outcomes of the annual customer satisfaction survey;
- the revised Whistleblower Policy;
- the preparations for the annual shareholders' meeting;
- the revised corporate governance code: in this connection, the revised by-laws of the Management Board, Supervisory Board and committees of the Supervisory Board were approved and/or adopted;
- the performance of Allego;
- the innovation and participation portfolio;
- the challenge of filling strategic management positions and succession planning.

Managers of the first echelon regularly attended meetings of the Supervisory Board to clarify subjects within their specific area of expertise.

Quality assurance and supervision

In the year under review, the Supervisory Board comprised five members and the composition remained unchanged. At the General Meeting of Shareholders of 5 April 2017, Coby van der Linde was reappointed upon the nomination of the Supervisory Board after a recommendation by the Works Council. The composition of the Supervisory Board is as follows:

Name	Appointed	Reappointed	End of term	Eligible for reappointment
Annemarie Jorritsma (chair)	2016	n/a	2020	yes
Govert Hamers	2016	n/a	2020	yes
Coby van der Linde	2009	2013, 2017	2021	no
Bert Roetert	2015	n/a	2019	yes
Ada van der Veer	2009	2012, 2016	2020	no

In 2017, Quirine Tjeenk Willink, General Counsel, and Miranda de Bliëk, Manager of the Corporate Secretariat, acted as, respectively, secretary (from 1 September 2017) and acting secretary to the Supervisory Board.

Independence

In the year under review, the composition of the Supervisory Board was such that the members were able to act critically and independently of each other, of the Management Board and of any particular interests. All members of the Supervisory Board are independent within the meaning of best practice provisions 2.1.7 to 2.1.9 (inclusive) of the Code.

Due to her supervisory board memberships at Wintershall Nederland B.V. and Wintershall Noordzee B.V., Ms Van der Linde is not independent as prescribed in Section 11 (2b) of the Electricity Act 1998 and Section 3 (2b) of the Gas Act. All other Supervisory Board members are independent within the meaning of these Acts. This means that none of them have a direct or indirect connection with an organisational entity that produces, procures or supplies electricity or gas. In the year under review, no transactions involving conflicts of interests of Supervisory Board or Management Board members were effected.

⁴ This is a group of shareholders appointed by and from the General Meeting of Shareholders to exercise certain powers on its behalf. These include the power of recommendation, appointment and dismissal of members of the Supervisory Board and powers in relation to the appointment and dismissal of members of the Management Board. For the composition of the Committee, see the website Alliander.com.

Other positions held by Supervisory Board members outside the company are reported in advance to the Supervisory Board. No Supervisory Board member holds a position outside the company that is in conflict with his or her Supervisory Board membership at Alliander. The number and nature of other positions of each Supervisory Board member warrant the expectation that he or she can devote sufficient time and attention to the company, and ensure the proper fulfilment of his or her duties. In addition, no Supervisory Board members holds more than five supervisory positions at large legal entities within the meaning of Article 2:142a of the Dutch Civil Code. Once a year the Supervisory Board discusses the complete overview of other positions of the Supervisory Board members. This provides an opportunity to exchange thoughts about the required time expenditure and to assess the continued compliance with the limitation prescribed in Article 2:142a of the Dutch Civil Code.

Profile, competences and diversity

The Supervisory Board has drawn up a profile of its composition, taking account of the nature and activities of the company. The profile covers the required expertise and background, the desired diversity, the size of the Supervisory Board and the independence of its members. Differences in knowledge, experience, age, gender and background give the Management Board and Supervisory Board the benefit of a broad range of viewpoints and perspectives. This makes a positive contribution to the management and control of the company as a whole. The Supervisory Board has drawn up a diversity policy for the composition of the Management Board and the Supervisory Board. This aims to ensure:

- a reflection of society in terms of nationality and/or cultural background;
- a balanced mix of ages;
- a good male / female balance. In conformity with the Act on balanced gender representation on management and supervisory boards (*Wet evenwichtige verdeling van zetels van het bestuur en de raad van commissarissen*), the Management Board and the Supervisory Board aim for at least 30% female members and at least 30% male members;
- a mixed composition regarding educational background and work experience.

The Supervisory Board is positive about the extent to which the current composition meets the diversity objectives. In 2017, there were no vacancies in the Supervisory Board. As a result, no further progress could be made towards the realisation of this policy's aims. Rejuvenation will be an extra selection criterion for future Supervisory Board vacancies, excluding reappointments.

Knowledge

To maintain and broaden the knowledge and expertise of its members, the Supervisory Board organised an information session on 'impact measurement' in 2017. We found this session extremely instructive. During the annual strategy gathering of the Supervisory Board with the Management Board, specific attention was devoted to the long-term gas strategy as part of the energy transition and the assurance of the public interests in the new energy system.

Information

Unless it receives timely, reliable and complete information, the Supervisory Board is unable to carry out its supervisory duties properly. The Management Board is the Supervisory Board's most important source of information. The provision of information is not confined to the structured information for the Supervisory Board meetings in accordance with the planning & control cycle. Ahead of each meeting the Supervisory Board also receives other documents for information purposes, and the Management Board provides relevant information in the interim in the form of e.g. press releases and updates on topical issues. On request, the Management Board also ensures that the Supervisory Board or an individual Supervisory Board member is provided with information on a specific subject. In addition, the Supervisory Board regularly receives information on relevant subjects during its contacts with the Internal Audit Director, the external auditor, the senior management and the Works Council. Last year, information was also obtained from external advisers. The Supervisory Board is of the opinion that the information provided to and gathered by the Supervisory Board in 2017 was adequate.

Self-assessment

The Supervisory Board performed a critical review of its functioning in 2017. During this self-assessment, which was carried out without external assistance, the Supervisory Board discussed its own functioning, the functioning of the individual Supervisory Board committees and the individual Supervisory Board members. The assessment enables the Supervisory Board to optimise its composition and role. The Supervisory Board decided to perform an assessment with external assistance in 2018. The provision of information was expanded in the course of 2017 to such an extent that the Supervisory Board is currently deliberating on how it can focus more on the main outlines in order to better fulfil its role as sounding board. Other topics discussed were the Supervisory Board's role and position on a number of important subjects, including the assessment of the senior management structure. This assessment, which was performed with external assistance on the Supervisory Board's initiative, led after the change of CEO to an adjustment of the senior management structure, partly on the initiative of the Management Board. In addition, the Supervisory Board discussed the functioning of both the Management Board as a collegiate body and the individual members of the Management Board. This assessment was performed using 360 degrees feedback. The conclusions from the assessments will be discussed with the Management Board.

Reporting of Supervisory Board committees

To ensure its effective functioning the Supervisory Board has set up an Audit Committee and a Selection, Appointment and Remuneration Committee, as described in the Corporate Governance chapter. These committees prepare the decision-making of the Supervisory Board within their respective areas of expertise and support the Supervisory Board with advice. The committee meetings serve to discuss the subjects in greater depth. The most important considerations and findings were shared with the Supervisory Board where the formal decision-making takes place. The composition of the committees, the most important issues discussed during the meetings and the performance of their tasks (as set out in the Corporate Governance chapter) are set out below.

Audit Committee

Composition

The Audit Committee consisted of three members in 2017: Ada van der Veer (chair), Govert Hamers (member) and Coby van der Linde (member). Ada van der Veer fulfils the role of financial expert, as set out in Article 2 (3, concluding sentence) of the Decree on the appointment of audit committees (*Besluit instelling auditcommissie*). All meetings were attended by the CFO, the Internal Audit Director, the Governance, Risk & Compliance Manager and the external auditor. In addition, the Audit Committee consulted once with the external auditor outside the presence of the Management Board and reported to the Supervisory Board on the relationship with the external auditor. This relationship is good in the Audit Committee's perception.

Main subjects

The Audit Committee assessed and discussed all relevant financial matters that were put to the Supervisory Board. This concerned:

- the 2016 annual report and the financial statements for that year
- the auditor's report for 2016
- the half-year and quarterly figures for 2017
- the external auditor's review report on the 2017 half-year figures
- the management letter for 2017
- the operational year plan for 2018
- the investment budget for 2018
- the 2018-2022 financial plan

Furthermore, the Audit Committee discussed the Fraud & Incidents Report for 2016, the Internal Audit work plan for 2017, the external auditor's audit plan for the audit of Alliander's 2017 financial statements and the 'in control' reports of Internal Audit and the follow-up of the audit findings. The Audit Committee devoted special attention to IT security in 2017. Due to the increasing digitisation of its operations, Alliander runs a growing risk of cyber attacks. Cybersecurity is a top priority in order to safeguard the reliability of our energy networks. Among other things, we discussed the required security level and the risk of physical terrorism. The Audit Committee also gave close consideration to the binding offer for 100% of the shares in Zeeuwse Netwerkhouding.

Other subjects raised during the meetings included the adjustment of the financial column involving a split between Business Control and Corporate Control, the financing policy, the tax situation, the external quality assessment of the Internal Audit Department by the Institute of Internal Auditors Netherlands (IIA), learning points regarding the 2016 financial statements, impairment testing, position papers, IFRS developments, the raising of a loan from the European Investment Bank, the implementation of the new European privacy legislation, the performance of Allego and the innovation and participation portfolio.

Selection, Appointment and Remuneration Committee

Composition

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

Main subjects

In 2017, the Committee prepared the reappointment of Coby van der Linde and gave a positive recommendation for this to the Supervisory Board. It also performed preparatory work for the Remuneration Report, the annual remuneration consultation between the Selection, Appointment and Remuneration Committee and the Committee of Shareholders, and the diversity policy for the composition of the Management Board and the Supervisory Board. Furthermore, it was informed about the outcomes of the Internal Audit Department's audit of the Management Board's expense claims. By far the most important issue for the Committee was the composition and size of the Management Board and the division of roles between its members. Both the Works Council and the Committee of Shareholders were informed about this and subscribed to the considerations underlying the decision to appoint Ingrid Thijssen as CEO and to continue with a two-person Management Board. The Committee also followed the developments surrounding the WNT. In the past year, Alliander once again found that the requirements of the WNT make it difficult to fill senior management positions and thus safeguard the continuity of the company.

Other business

Number of meetings

In 2017, the Supervisory Board held eight scheduled meetings with the Management Board. In addition, three extra meetings were held (by telephone) with the Management Board about the takeover of Zeeuwse Netwerkhouding. Supervisory Board-only meetings took place prior to each scheduled meeting, as well as on several other occasions to discuss the composition of the Management Board. The outcomes of the Supervisory Board-only meetings are generally shared in the scheduled meetings. The committees of the Supervisory Board held ten meetings in total in 2017.

During the year, the chair of the Supervisory Board and the chair of the Management Board maintained frequent contacts with each other. The chair of the Audit Committee was in regular contact with the CFO, as was the chair of the Selection, Appointment and Remuneration Committee with the CEO.

Supervisory Board attendance

The attendance percentages of the individual Supervisory Board members were as follows:

Members of the Supervisory Board	Annemarie Jorritsma	Govert Hamers	Coby van der Linde	Bert Roetert	Ada van der Veer
Meetings of the Supervisory Board (11)	100%	64%	100%	91%	100%
Meetings of the Audit Committee (7)	n/a	71%	100%	n/a	100%
Meetings of the Selection, Appointment and Remuneration Committee (3)	100%	n/a	n/a	100%	n/a

Contacts with the Works Council

The Supervisory Board attaches great value to a good relationship with the Works Council in order to stay in touch with the concerns of employees. The members of the Supervisory Board attended the consultations between the Management Board and the Works Council in different compositions. Outside of these consultations, the full Supervisory Board meets with the Works Council once a year during a joint meeting. The topics discussed at this joint meeting were the role of the network operator and the network company and leadership & culture. The Supervisory Board regards the consultation with the Works Council as constructive and valuable.

Financial statements

As prescribed by the articles of association, the Supervisory Board puts the financial statements as prepared by the Management Board to the General Meeting of Shareholders for adoption. The financial statements were audited by Deloitte Accountants B.V., which issued an unqualified opinion. This opinion is included in this annual report under Other information as part of the financial statements. The members of the Supervisory Board signed the financial statements as required by Article 2:101 (2) of the Dutch Civil Code.

The 2017 financial statements, including the proposed profit appropriation and the dividend proposal for 2017, will be put to the shareholders for adoption during the General Meeting of Shareholders on 4 April 2018. The Supervisory Board proposes that the General Meeting of Shareholders discharges the members of the Management Board and the Supervisory Board from responsibility for their management and supervision, respectively, in the 2017 financial year and adopts the financial statements.

Word of appreciation

The Supervisory Board expresses its appreciation for the results achieved and thanks the Management Board, the management and the employees for their contributions and commitment in 2017.

Arnhem, the Netherlands, 16 February 2018

Supervisory Board

Annemarie Jorritsma (chair)

Govert Hamers

Coby van der Linde

Bert Roetert

Ada van der Veer

Remuneration report

In this Remuneration Report, the Supervisory Board accounts for the implementation of the remuneration policy for the Management Board of Alliander in 2017. The report was prepared by the Selection, Appointment and Remuneration Committee. It also sets out the remuneration policy for the members of the Supervisory Board. An overview of the remuneration awarded to the Management Board and Supervisory Board members for 2017 can be found in the notes to the consolidated financial statements.

Remuneration policy for the Management Board

General

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

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

In concrete terms, this has the following implications for the members of the Management Board. Mr P.C. Molengraaf (in office until September 2017) and Mr M.R. van Lieshout, both members of the Management Board of Alliander, also committed on a voluntary basis to a reduction of their previously agreed salaries to the capped remuneration level as introduced for Alliander, on the understanding that existing arrangements will be respected insofar as possible. This means that the remuneration of Mr Van Lieshout will be reduced to a level of 130% of a minister's remuneration in 2020. Ms I.D. Thijssen is also a member of the Management Board of Alliander. In addition, she is responsible for the business and operational management of the network operator Liander. In connection with the latter activities for Liander, Ms Thijssen qualifies as a senior executive within the meaning of the WNT. Her remuneration package for these activities is in conformity with the WNT. The total remuneration of Ms Thijssen does not exceed the remuneration cap that has been introduced for Alliander.

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

Procedure

The Supervisory Board draws up the remuneration policy for the members of the Management Board, based on advice from the Selection, Appointment and Remuneration Committee. The General Meeting of Shareholders of Alliander adopts the remuneration policy. Within the set remuneration policy, the Supervisory Board, again acting on the advice of the Selection, Appointment and Remuneration Committee, sets the actual remuneration package for each individual Management Board member.

Variable remuneration

Effective from 1 January 2017, the short-term variable remuneration was partly incorporated into the salary⁵. As a result, there is no longer any form of variable remuneration.

The Supervisory Board has the discretionary power to reclaim from the member of the Management Board all or part of any variable remuneration paid to him or her since 1 January 2014 on the basis of incorrect information about the achievement of the objectives underlying the variable remuneration or about the conditions governing the variable remuneration ('claw back').

Remuneration components

The total remuneration package for the Management Board members for 2017 consists of the following components:

1. annual gross base salary;
2. pension benefits;
3. social security charges and other benefits.

1. Annual gross base salary

Management Board members receive an annual gross base salary, including holiday allowance. The annual gross base salary is adjusted each year, insofar as this fits in with the agreed remuneration arrangements, in line with the periodic salary increases for employees, as laid down in the collective labour agreement for network companies.

2. Pension benefits

Management Board members participate in the pension scheme of Stichting Pensioenfonds ABP as referred to in the collective labour agreement for network companies and applicable to all employees of Alliander. Since 1 January 2004, this has consisted entirely of an average pay scheme. Management Board members pay an individual contribution to participate in the pension scheme.

Effective from 1 January 2015, the maximum pensionable salary is equal to the permitted maximum under tax rules (€ 103,317 for 2017). This entails that no further pension is accrued over the part of the salary that exceeds € 103,317.

3. Social security charges and other benefits

In addition to the social security charges and contributions that are normally paid by the company, Management Board members are entitled to an employer's contribution to the premium for the group health insurance plan, contributions to the personal employee benefits budget, an expense allowance⁶ and the use of a company car. In addition, the company has arranged accident and liability insurance for the benefit of the Management Board members. The company does not provide loans, advances or guarantees to members of the Management Board.

A restrictive policy is in place for positions outside the company: the Supervisory Board must approve any supervisory board membership or other paid position, including positions of an advisory or supervisory nature, while other positions outside the company must be reported in advance to the Supervisory Board. Any remuneration received for other positions held pursuant to membership of Alliander's Management Board accrues wholly to the company. Any remuneration for other positions not held pursuant to membership of Alliander's Management Board accrues to the Management Board member concerned, who is also liable for any resulting tax consequences.

Other principles

Terms of appointment

All members of the Management Board are employed by Alliander N.V. on the basis of an indefinite contract of employment.

Notice and severance policy

Notice periods of three months for the Management Board members and six months for the company have been agreed with the Management Board members. If the company terminates a Management Board member's employment contract, it is company policy to award a severance payment equal to one year's salary, based on the relevant provisions in the individual employment contracts.⁷ Under certain conditions, this one-off payment is also made if a member of the Management Board resigns and cannot be reasonably required to continue the employment

⁵ The variable remuneration system was not applicable to Ms Thijssen.

⁶ An expense allowance is not applicable to Ms Thijssen.

⁷ The maximum severance payment upon dismissal by the company for Ms Thijssen is € 75,000.

contract. Relevant examples include a change of control of the company or an irreconcilable difference of opinion on the policy.

Implementation of remuneration policy for the Management Board in 2017

General

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

1. Annual gross base salary

Until 1 September 2017, the base salary of Mr Molengraaf amounted to € 171,587, including 8% holiday allowance. In the 2017 calendar year, the base salary of Mr Van Lieshout amounted to € 290,158, including 8% holiday allowance. In the 2017 calendar year, the base salary of Ms Thijssen amounted to € 209,771, including 8% holiday allowance.

2. Pension benefits

Pension costs relate to standard pension contributions, which are based on the annual gross base pensionable salary, up to the permitted maximum of € 103,317 under tax rules. The total pension contributions paid in the year under review for Mr Molengraaf (until 1 September 2017), Mr Van Lieshout and Ms Thijssen were € 12,449, € 21,875 and € 19,449, respectively.

3. Social security charges and other benefits

In 2017, the total amount of social security charges and contributions, the employer's contribution towards the premium for the health insurance plan, contributions to the personal employee benefits budget and the expense allowance⁸ amounted to € 17,562 for Mr Molengraaf (until 1 September 2017), € 26,469 for Mr Van Lieshout and € 11,806 for Ms Thijssen.

Notice and severance policy

The Supervisory Board arranged Mr Molengraaf's departure effective from 1 September 2017 as contractually agreed with Mr Molengraaf. His departure was initiated by the Supervisory Board and arranged accordingly.

Claw back

In 2017, the Supervisory Board did not claw back any variable remunerations paid in previous years to members of the Management Board.

Remuneration ratio

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

Management Board members	I.D. Thijssen		M.R. van Lieshout		P.M. Molengraaf (until 1 September 2017)	
	2017	2016	2017	2016	2017	2016
Ratio	3,6	3,7	5	4,8	3	5,1

Principles:

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

⁸ An expense allowance is not applicable to Ms Thijssen.

Remuneration policy for the Supervisory Board

The remuneration of the Supervisory Board members is fixed and not dependent on the company's results. The remuneration was adopted by the General Meeting of Shareholders in 2011 and consists of a fixed annual gross amount for the chair and a fixed annual gross amount for the other members. Furthermore, additional fixed annual gross amounts are paid to the members of the various Supervisory Board committees. The remuneration levels are adjusted yearly in line with wage developments under the collective labour agreement for network companies. The members of the Supervisory Board are also entitled to an allowance for travel and accommodation expenses. Alliander does not provide any personal loans, guarantees and so forth to the members of its Supervisory Board. Liability insurance has been taken out for the members of the Supervisory Board. The WNT restricts the remuneration of the members of the Supervisory Board in their capacity as supervisors of the Liander network operator. Effective from 1 January 2015, the WNT limits the maximum remuneration of the Supervisory Board chair and Supervisory Board members to, respectively, 15% and 10% of the maximum WNT limit applicable to Liander.

An overview of the total remuneration awarded to the members of the Supervisory Board for 2017 can be found in the notes to the consolidated financial statements

WNT

The WNT, as applicable to the network operator Liander N.V., requires companies to report on the remuneration of current and former senior executives. In addition, the WNT requests transparency on any remuneration paid to non-senior executive employees that exceed the set limit in the reporting year. The annual report of the network operator, which is to be published in the second quarter of 2018, will contain disclosures on the WNT requirements.

Financial Statements

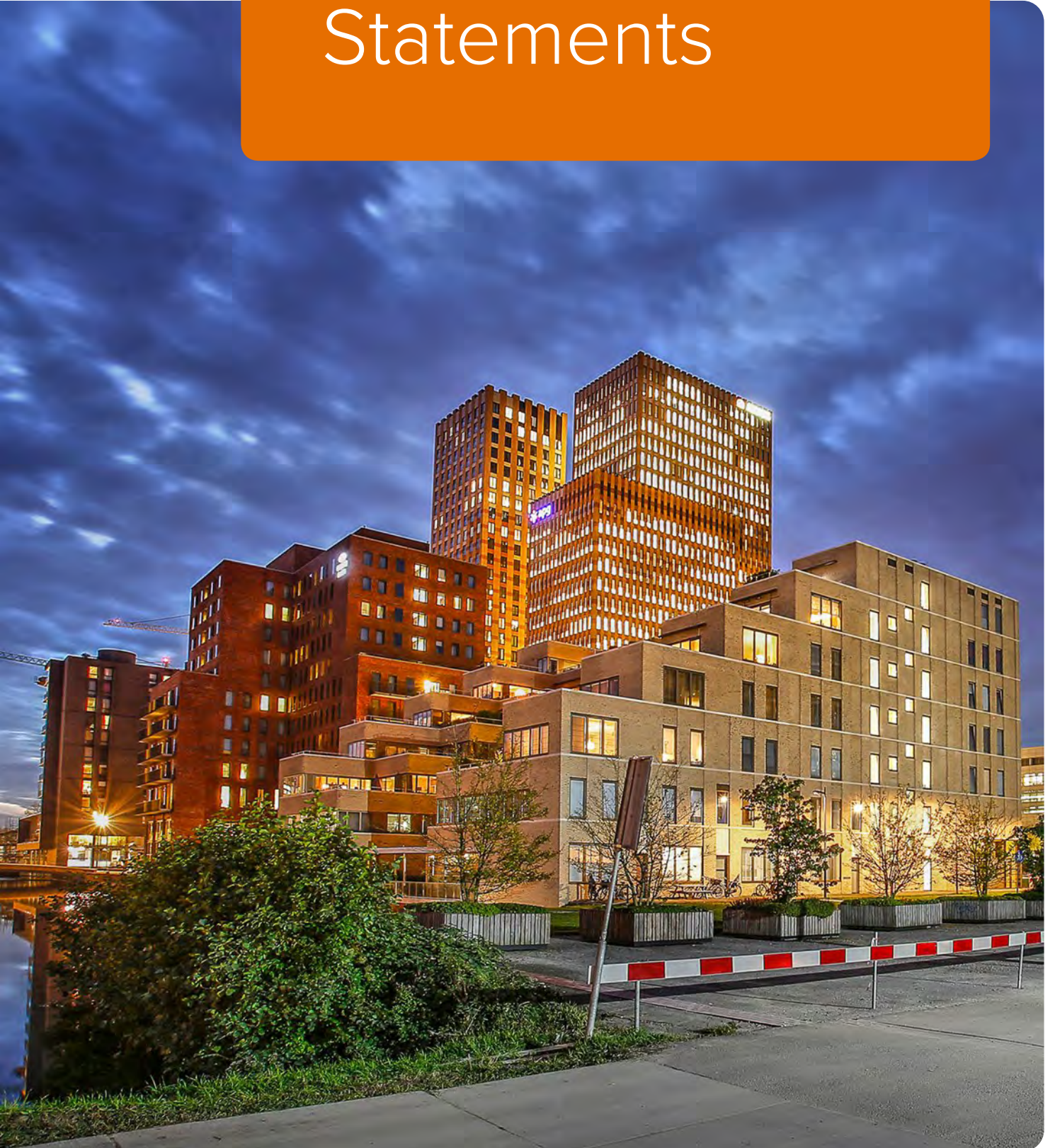


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Consolidated financial statements

Consolidated balance sheet

€ million	Note	2017	2016
Assets			
Non-current assets			
Property, plant and equipment	3	6,793	6,529
Intangible assets	4	317	319
Investments in associates and joint ventures	5	3	9
Available-for-sale financial assets	6	193	224
Other financial assets	7	41	38
Deferred tax assets	17	205	216
		7,552	7,335
Current assets			
Inventories	9	74	64
Trade and other receivables	10	342	273
Other financial assets	6, 7	-	15
Cash and cash equivalents	11	101	48
		517	400
Total assets		8,069	7,735
Equity and liabilities			
Equity			
	12		
Share capital		684	684
Share premium		671	671
Subordinated perpetual bond loan		496	496
Revaluation reserve		38	46
Other reserves		1,850	1,685
Result for the year		203	282
Total equity		3,942	3,864
Liabilities			
Non-current liabilities			
Interest-bearing debt	13	1,553	1,483
Finance lease liabilities	19	150	168
Deferred income	14	1,629	1,597
Provisions for employee benefits	15	49	50
Deferred tax liabilities	17	5	5
Other provisions	16	7	5
		3,393	3,308
Short-term liabilities			
Trade and other payables	18	133	122
Tax liabilities		80	63
Interest-bearing debt	13	231	81
Provisions for employee benefits	15	33	46
Accruals	8, 18	257	251
		734	563
Total liabilities		4,127	3,871
Equity and liabilities		8,069	7,735

Consolidated income statement

€ million	Note	2017	2016
Revenue	21	1,697	1,584
Other income	22	143	139
Total income		1,840	1,723
Operating expenses			
Purchase costs and costs of subcontracted work	23	-402	-402
Employee benefit expenses	24	-485	-462
External personnel expenses	24	-151	-123
Other operating expenses	25	-329	-333
Total purchase costs, costs of subcontracted work and operating expenses		-1,367	-1,320
Depreciation and impairment of property, plant and equipment	26	-396	-395
Less: Own work capitalised		228	199
Total operating expenses		-1,535	-1,516
Operating profit		305	207
Finance income	27	67	18
Finance expense	28	-110	-72
Result from associates and joint ventures	5	9	-5
Profit before tax		271	148
Tax	29	-68	-42
Profit after tax from continuing operations		203	106
Profit after tax from discontinued operations	33	-	176
Profit after tax¹		203	282

* The profit after tax for 2017 is almost entirely attributable to the shareholders of Alliander N.V.

Consolidated statement of comprehensive income

The comprehensive income was as follows:

€ million		2017	2016
Profit after tax		203	282
Other elements of comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Revaluation of available-for-sale financial assets	12	-10	-9
Tax		2	2
Comprehensive income after tax¹		195	275

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

Consolidated cash flow statement

€ million	Note	2017	2016
Cash flow from operating activities	30		
Profit after tax		203	282
Adjustments for:			
- Finance income and expense	27, 28	43	54
- Tax	29	68	42
- Results from associates and joint ventures	5	-9	5
- Depreciation, impairment and amortisation	22, 26	327	329
Book profit sale Endinet	33	-	-176
Changes in working capital:			
- Inventories		-10	-7
- Trade and other receivables		-61	10
- Trade and other payables and accruals		29	20
Total changes in working capital		-42	23
Changes in deferred tax, provisions, derivatives and other		-35	-32
Cash flow from operations		555	527
Interest paid		-47	-65
Interest received		2	2
Corporate income tax paid (received)		-56	-88
Total		-101	-151
Cash flow from operating activities		454	376
Cash flow from investing activities	30		
Investments in property, plant and equipment	3	-666	-680
Construction contributions received from third parties	14	96	99
Investments and divestments in financial assets (associates and joint ventures)		14	-5
Sale of high-voltage grid		7	-
Cash flow from the reparcelling operation		-	359
Cash flow from the acquisition of 450connect GmbH		-	-5
Cash flow from investing activities		-549	-232
Cash flow from financing activities	30		
Redemption EMTN		-	-100
ECP financing issued (redemption)	13	183	29
Long-term debt issued (redemption)	13	81	-27
(Redemption) loans granted	13	-11	4
Received (granted) current deposits	11	15	10
Reimbursement subordinated perpetual bond	12	-16	-16
Dividend paid		-104	-85
Cash flow from financing activities		148	-185
Net cash flow		53	-41
Cash and cash equivalents as at 1 January		48	89
Net cash flow		53	-41
Cash and cash equivalents as at 31 December		101	48

Consolidated statement of changes in equity

€ million	Note	Equity attributable to shareholders and other providers of equity						Profit for the year	Total
		Share capital	Share premium	Subordinated perpetual bond loan	Revaluation reserve	Other reserves			
As at 1 January 2016		684	671	496	53	1,548	235	3,687	
Revaluation of available-for-sale financial assets		-	-	-	-7	-	-	-7	
Profit after tax for 2016		-	-	-	-	-	282	282	
Comprehensive income for 2016		-	-	-	-7	-	282	275	
Other ¹		-	-	-	-	-1	-	-1	
Reimbursement subordinated perpetual bond after tax		-	-	-	-	-12	-	-12	
Dividend for 2015		-	-	-	-	-	-85	-85	
Profit appropriation for 2015		-	-	-	-	150	-150	-	
As at 31 December 2016		684	671	496	46	1,685	282	3,864	
Revaluation of available-for-sale financial assets	12	-	-	-	-8	-	-	-8	
Profit after tax for 2017		-	-	-	-	-	203	203	
Comprehensive income for 2017		-	-	-	-8	-	203	195	
Other ¹		-	-	-	-	-1	-	-1	
Reimbursement subordinated perpetual bond after tax	12	-	-	-	-	-12	-	-12	
Dividend for 2016		-	-	-	-	-	-104	-104	
Profit appropriation for 2016		-	-	-	-	178	-178	-	
As at 31 December 2017		684	671	496	38	1,850	203	3,942	

¹ Other consists of remeasurements for post-employment benefit obligations.

Notes to the consolidated financial statements

Accounting policies

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

The 2017 financial statements were signed by the members of the Management Board and the members of the Supervisory Board on 16 February 2018. The Supervisory Board will submit the financial statements for adoption by the General Meeting of Shareholders on 4 April 2018.

The accounting policies are based on the assumption of a going concern.

The Alliander group

Alliander N.V. is a public limited liability company, registered in Arnhem, the Netherlands. The principal activities of Alliander and its subsidiaries (also referred to here as 'Alliander', 'the Alliander group', 'the group' or similar expressions) are the operation of electricity and gas networks covering roughly one-third of the Netherlands and the provision of related services.

The subsidiary Liander owns and manages the regional gas and electricity networks in the provinces of Gelderland, Friesland, Noord-Holland and parts of Zuid-Holland, Flevoland and the Noordoostpolder. Under the Electricity Act 1998 and the Gas Act the management of the networks and regional distribution of energy are the exclusive responsibility of the network operator. Liandon provides services relating to the construction and maintenance of complex energy infrastructures. Alliander AG carries on network operation and public lighting activities in Germany. The subsidiary Stam is a medium-sized firm of contractors based in Noord-Holland, engaging in network construction and maintenance work. The activities of Alliander Telecom N.V. and the joint operation CDMA Utilities B.V. concern the group's data communications. Through its subsidiaries, including Allego, Alliander Duurzame Gebiedsontwikkeling and BackHoom, Smart Society Services and Energy Exchange Enablers set up in recent years, Alliander has taken the initiative in and is facilitating developments and activities aimed at creating a sustainable energy supply for the Netherlands. A review of 2017 can be found on our annual report website. The increase in sustainable forms of electricity generation on a more decentralised level places demands on the power distribution infrastructure and represents a challenge for network companies. Alliander sees it as its responsibility, together with other market participants, to facilitate this greater sustainability at an acceptable cost to society.

Non-controlling interests

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

IFRS

Alliander's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as at 31 December 2017, as adopted by the European Union (EU), and the provisions of Title 9, Book 2 BW. IFRS consists of the IFRS standards as well as the International Accounting Standards issued by the International Accounting Standards Board (IASB) and the interpretations of IFRS and IAS standards issued by the IFRS Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), respectively.

The significant accounting policies used in the preparation of the consolidated financial statements are set out below. The historical cost convention applies. However, certain assets and liabilities, including derivatives, are measured at fair value. Unless stated otherwise, these accounting policies have been applied consistently to the years covered in these financial statements.

The preparation of financial statements requires the use of estimates and assumptions based on experience and considered appropriate by management given the specific circumstances. These estimates and assumptions have an impact on the carrying amounts and presentation of the reported assets and liabilities, the off-balance-sheet rights and obligations and the reported income and expenditure during the year. The actual outcomes may differ from the estimates and assumptions used. Note [35] to the financial statements gives further information on the areas and items in the financial statements where estimates and assumptions are used. Unless stated otherwise, all amounts reported in these financial statements are in millions of euros.

Unrealised profits on transactions between the Alliander group and its associates or joint ventures are eliminated pro rata according to the group's interest in the entity concerned. Unrealised losses are also eliminated, unless the transaction gives rise to the recognition of impairment losses. If appropriate, the accounting policies of associates and joint ventures are adjusted to ensure the consistent application of accounting policies throughout the Alliander group.

New and/or amended IFRS standards applicable in 2017

The IASB and the IFRIC have issued new and/or amended standards and interpretations which are applicable to Alliander with effect from the 2017 financial year. The standards and interpretations below have been endorsed by the European Union.

IAS 12 'Recognition of deferred tax assets for unrealised losses' clarifies a number of specific situations surrounding the recognition or otherwise of deferred tax assets and the measurement thereof.

IAS 7 'Disclosure initiative – Amendments to IAS 7 Statement of Cash Flows 'Changes in liabilities arising from financing activities'' requires more detailed disclosure of changes in liabilities from financing activities so as to provide a proper view of changes arising from cash flows and non-cash changes.

In order to achieve this, the following changes must be disclosed, where applicable:

1. Changes from financing cash flows;
2. Changes arising from obtaining or losing control of subsidiaries or other operations;
3. The effect of changes in foreign exchange rates on foreign currency assets and liabilities;
4. Changes in fair values; and
5. Other changes

The IAS 12 amendment has no impact on the 2017 financial statements; the effect of the IAS 7.44A amendment is covered in the disclosures in note [13].

Expected changes in accounting policies

In addition to the above-mentioned new and amended standards, the IASB and the IFRIC have issued new and/or amended standards and/or interpretations in the period which will be applicable to Alliander in subsequent financial years. These standards and interpretations can only be applied if adopted by the European Union. The following changes may be of relevance to Alliander.

IFRS 15 'Revenue from Contracts with Customers' replaces the existing 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 disclosure requirements under IFRS 15 are considerable.

IFRS 15 has the option of two different approaches for the transition to this new standard, viz. full retrospective or prospective. With full retrospective transition, the cumulative effect of the transition to the new standard is recognised on 1 January 2017 with the comparative figures in the 2017 financial statements presented entirely in accordance with IFRS 15. In the case of prospective transition, the cumulative effects of the transition are recognised on 1 January 2018 while the comparative figures continue to be based on the old standard. Alliander has opted for the full retrospective approach.

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 enabling the reporting requirements to be met with effect from 1 January 2018.

The main findings to come out of the implementation exercise are that, as from 1 January 2018, more extensive disclosure requirements will be applicable, particularly with respect to progress on contracts with customers, performance obligations and segmentation of revenue. Also, with effect from 2018, there will be a shift of amounts in the income statement between other income and revenue. Recognised as revenue will be the income from contracts with customers (IFRS 15) while other income, such as rental income, will be accounted for in other income. For 2017, this means that a net amount of approximately €100 million shifts from other income to revenue.

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.

IFRS 9 includes amended requirements for the recognition and measurement of financial assets. The classification of financial assets is related to the business model applicable to the assets and introduces a new category for certain instruments, viz. fair value through other comprehensive income (FVOCI). IFRS 9 includes a new impairment model for all financial instruments, based on the expected losses rather than actual losses, as under IAS 39. In the recognition and measurement of financial liabilities, the only difference concerns the treatment of changes in the credit risk of a liability that is recognised at fair value. The effect of changes in the credit risk of a liability is recognised in other comprehensive income (OCI). IFRS 9 also contains new requirements for hedge accounting, enabling an entity to reflect its risk management more accurately in the financial statements. IFRS 9 is applicable to reporting periods beginning on or after 1 January 2018.

An implementation programme was begun at Alliander in 2017. The financial assets were evaluated in accordance with the new IFRS 9 standard. Any changes in recognition, measurement and disclosure requirements were identified, along with the impact on accounting records and systems. Alliander has a modest portfolio of financial instruments which, in relation to the available-for-sale financial assets category, comprises an investment in corporate debt issued by a large international company. With the application of IFRS 9 in 2018, there will be a change in the recognition and measurement of the assets concerned. These assets serve as collateral for the liabilities in relation to cross-border leases. Given the business model, i.e. 'hold to maturity', the bonds will be carried at amortised cost under IFRS 9. This change means that the carrying amount of the bonds is reduced by €43 million, charged to other reserves. The original recognition in equity of a revaluation reserve of €38 million and the associated deferred tax of €13 million ceases to apply, this change likewise being accounted for in other reserves. This results in a net increase in other reserves of €8 million, recognised in the opening balance as at 1 January 2018. The impact of the new impairment model was explored and does not lead to material changes. The expected credit losses are mainly recognised on a collective basis. Apart from the financial assets in the regulated domain, Alliander has a modest position in other financial assets relating to the deregulated activities. The impact is mainly of a procedural nature and is minor.

As at 31 December 2017, Alliander did not make use of hedge accounting.

IFRS 16 'Leases'. 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 organise the change. 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 in particular 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 from operating expenses to depreciation and to finance expense in the income statement. Precise figures for the increase in total assets and movements in the income statement cannot be given at this stage. In note [19] 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. The other future amendments to standards and interpretations that have been published are either not relevant to Alliander or do not have any material impact on Alliander and are therefore not considered in greater detail in these financial statements.

Basis of the consolidation

Subsidiaries

The consolidated financial statements comprise the financial data of Alliander and its subsidiaries. Subsidiaries are companies over which Alliander, either directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from their activities. In determining whether Alliander has control, actual and potential voting rights that are currently exercisable or convertible are taken into account, along with the existence of other agreements enabling Alliander to control financial and operating policies.

The assets, liabilities and results of subsidiaries are fully consolidated. The results of consolidated subsidiaries that have been acquired during the year are consolidated from the date Alliander obtains control over those subsidiaries. Consolidation of subsidiaries ceases from the date Alliander no longer controls the subsidiary.

The acquisition method is used to account for acquisitions of subsidiaries by Alliander. The purchase price of an acquisition is determined by measuring the fair value of the acquired assets, the issued equity instruments and the assumed or acquired liabilities. The consideration paid includes the fair value of all assets or liabilities arising out of contingent consideration arrangements. The identifiable assets and liabilities and contingent liabilities that are acquired are initially measured at fair value at the date of acquisition, irrespective of the amount that is attributable to non-controlling interests (see also the accounting policies for goodwill). For each business combination, it is determined whether any non-controlling interest in the acquiree is measured at fair value or at the proportionate share of the non-controlling interest in the acquiree's identifiable net assets. The interests of third parties in group equity and the group's profit after tax are presented separately as non-controlling interests and profit after tax attributable to non-controlling interests.

Intercompany transactions, intercompany receivables and payables and unrealised gains on transactions between subsidiaries are eliminated. Unrealised losses are also eliminated, unless the transaction gives rise to the recognition of impairment losses. If appropriate, the accounting policies of subsidiaries are adjusted to ensure the consistent application of accounting policies throughout the Alliander group.

Associates and joint arrangements

Associates are entities where Alliander, directly or indirectly, exercises significant influence, but not control, over the financial and operational policies. Significant influence is assumed when Alliander can exercise between 20% and 50% of the voting rights.

Joint ventures are joint arrangements where the parties having joint control over the arrangement have rights to the net assets of the arrangement. These parties are referred to as investors in joint ventures.

A joint operation is a joint arrangement where the parties having joint control over the arrangement (including Alliander) have rights to the assets and obligations for the liabilities relating to the arrangement. These parties are referred to as participants in joint operations.

In a joint operation, Alliander recognises its assets and liabilities and its revenue and expenses arising from the joint operation.

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

Investments in associates and interests in joint ventures are measured using the equity method. Initial measurement is at historical cost. The carrying amount of the associate or the joint venture includes the goodwill paid at the date of acquisition of the associate or entering into the joint venture and Alliander's share in the changes in the equity of the associate or joint venture after the date of the transaction. The share in the realised results of the entities concerned since the date on which they were acquired is recognised in the income statement and the share in the change in unrealised results of the entities concerned since acquisition date is included in the comprehensive income. If the accumulated losses exceed the carrying amount, they are not recognised unless Alliander has an obligation or has made payments to defray them, in which case, a provision is recognised and charged to income.

Unrealised profits on transactions between the Alliander group and its associates or joint ventures are eliminated pro rata according to the group's interest in the entity concerned. Unrealised losses are also eliminated, unless the transaction gives rise to the recognition of impairment losses. If appropriate, the accounting policies of associates and joint ventures are adjusted to ensure the consistent application of accounting policies throughout the Alliander group.

Scope of the consolidation

2017

There were no changes in the consolidation in 2017.

2016

Under the agreement between Alliander and Enexis on the exchange of regional energy distribution networks, Endinet was sold to Enexis on 1 January 2016 and Alliander obtained total control of AEF B.V.

On 31 May 2016, Alliander AG purchased the entire share capital of Inquam Deutschland GmbH (name changed to 450connect GmbH). 450connect is active in leasing bandwidth to third parties, including provision of services related to the communication networks concerned.

Segment reporting

The reporting of segment information reflects the basis on which management information is reported to the Chief Operating Decision-Maker (CODM). The Management Board is identified as the most senior officer (CODM) responsible for the allocation of resources and for evaluating segment performance. Internal reporting is based on the same accounting policies as are used for the consolidated financial statements. The internally reported results are on a comparable basis, i.e. excluding incidental items and fair value movements. The reconciliation with the reported figures is given in note [2].

The segments were revised following the sale of Endinet on 1 January 2016. Starting from the 2016 financial year, Alliander is using the following segments:

- Network operator Liander;
- Other

Foreign currency translation

Functional and presentation currency

The items in the financial statements of the entities forming part of the Alliander group are recorded in the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are prepared in euros, Alliander's functional and presentation currency.

Translation of transactions and balance sheet items in foreign currencies

Amounts of transactions in foreign currencies are converted into the functional currency at the applicable exchange rate at the time. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rates at the balance sheet date. Currency translation differences resulting from the settlement of transactions denominated in foreign currency or the translation at the balance sheet date are recognised in the income statement, unless these exchange gains or losses are recognised directly in comprehensive income as cash flow hedges or net investment hedges in a foreign entity.

Currency translation differences on monetary available-for-sale financial assets are recognised in income when they relate to the translation of the amortised cost in foreign currency. All other translation differences are recognised in equity.

Impairments

Assets are allocated to the lowest possible level at which they generate separately identifiable cash flows (cash-generating units). Goodwill is allocated to a level that is consistent with the manner in which goodwill is internally reviewed by management. Impairment of cash-generating units is initially allocated to the goodwill of the cash-generating unit (or group of cash-generating units) and is subsequently allocated proportionately to the carrying amount of the other assets of the cash-generating unit.

Under IFRS, goodwill is tested annually for impairment by comparing the recoverable amount and the carrying amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. Impairment losses - the difference between carrying amount and recoverable amount - are recognised in the income statement.

A similar calculation is only performed in the case of all other non-current assets if warranted by events or changes in circumstances (triggering event analysis). The results of this calculation determine whether the value of property, plant and equipment, intangible assets or financial assets has been impaired. Each year and when interim results are published, a test is carried out to establish whether such events or changes have occurred.

There was no change in the composition of the cash-generating units in 2017.

The recoverable amount is the higher of the fair value less costs to sell and the value in use. In measuring the value in use, the estimated future cash flows are discounted at a pre-tax discount rate. The discount rate reflects the time value of money and the specific risks that are associated with the assets involved. If certain assets do not generate cash flows independently, the value in use is measured for the cash-generating unit to which the asset involved belongs.

If a previously recognised impairment loss ceases to apply, it is reversed to the original carrying amount less regular depreciation and amortisation up to the date of reversal. Impairments of goodwill are not reversed.

Assets held for sale and discontinued operations

Non-current assets and assets forming part of significant activities that are held for sale, together with the associated liabilities, are presented separately in the balance sheet. Assets are designated as being held for sale if Alliander has committed itself to the sale of the asset involved, if the sales process has started and if the sale is expected to occur within one year of the asset being classified as held for sale. These assets are no longer depreciated, but are recognised at fair value less costs to sell if this amount is lower than the carrying amount. If the sale has not taken place within one year, the asset and associated liabilities are no longer presented separately in the balance sheet unless the failure to meet the one-year time limit is due to events or circumstances beyond Alliander's control and Alliander still intends to sell the asset in question.

Assets held for sale and the associated liabilities are presented as such in the balance sheet from the time that they are designated as held for sale. The comparative figures in the balance sheet are not restated. A discontinued operation is an activity of material significance which has been either discontinued or classified as held for sale. The results from discontinued operations comprise the results for the entire financial year up to the up to the close of the year. The comparative figures are restated in this case.

Property, plant and equipment

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

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

Property, plant and equipment is measured at historical cost, less accumulated depreciation and impairment. At the time of transition to IFRS on 1 January 2004, Alliander decided to use the option in IFRS 1 'First-Time Adoption of International Financial Reporting Standards' to recognise networks at their deemed cost on that date.

Historical cost includes all expenditure directly attributable to the purchase of an item of property, plant and equipment or the production of an item of property, plant and equipment for own use. The cost of production for the company's own use includes the direct costs of materials used, labour and other direct production costs attributable to the production of the item of property, plant and equipment and the costs required to bring it into its operational condition.

With effect from 1 January 2009, the costs of loans associated with the purchase of an item of property, plant and equipment or assets under construction are capitalised insofar as they can be directly attributed to the acquisition, production or construction of a qualifying asset. For Alliander, this entails the obligatory capitalisation of interest costs from all qualifying assets whose initial capitalisation date falls on or after 1 January 2009.

Costs incurred after the date on which an item of property, plant and equipment has been taken into use are only capitalised if it can be assumed that these costs will generate future economic benefits and if they can be measured reliably. Depending on the circumstances, these costs form part of the carrying amount of the asset involved or are capitalised separately. The carrying amount of the original asset is derecognised on replacement. Maintenance expenditure is charged directly to the income statement in the year these costs are incurred.

Historical cost also includes the net present value of the estimated dismantling and removal costs and, if applicable, the costs of restoring the site to its original condition insofar as there is a legal or constructive obligation to do so. These costs are capitalised at the time of acquisition or at a later date when the obligation arises. In both cases, the capitalised costs are depreciated over the expected remaining useful life of the asset concerned.

Property, plant and equipment is depreciated using the straight-line method over the expected useful lives of the various components of the asset concerned, taking account of the expected residual value.

The useful lives of the asset categories are as follows:

- land: not depreciated;
- buildings: 20-50 years;
- networks: 5-55 years;
- other plant and equipment: 3-60 years;
- assets under construction: not depreciated.

Assets with a short useful life (5 years) forming part of the networks mainly concern electronic equipment. The networks themselves (pipes and cables) generally have a useful life of 40 to 55 years. The expected useful lives, residual values and depreciation methods are reviewed annually and adjusted as necessary. Gains or losses on disposal are determined from the sales proceeds and the carrying amount on the date of disposal. Gains are recognised in other income.

Changes in expected useful lives 2017

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

2016

The existing traditional meters used by retail customers will be replaced in an accelerated manner over the next few years through the large-scale installation of smart meters. Commencing in 2016, the depreciation of meters due for replacement will be accelerated to 2020, leading to the depreciation charge being higher by €2.7 million each year compared with 2015.

Intangible assets

Goodwill

Goodwill is the amount by which the consideration paid on transfer of ownership exceeds the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiaries or associates acquired. Goodwill recognised on the acquisition of subsidiaries or associates is classified under intangible assets. Goodwill recognised on the acquisition of associates is included in the cost of the investment concerned. If the amount paid on transfer is lower than the fair value of the identifiable assets, liabilities and contingent liabilities (negative goodwill), this difference is recognised directly through the income statement.

The carrying amount of goodwill consists of historical cost less accumulated impairment. Impairment tests are performed annually in order to determine whether the carrying amount of the goodwill has been impaired. On the disposal of entities or cash-generating units, the goodwill attributable to the entity or unit is taken into account in determining the result on disposal.

Other

Purchased lease contracts are recognised in the balance sheet as other intangible assets, measured at the net present value of the future cash flows. Amortisation is calculated over the average period of the purchased contracts.

Financial assets

Financial assets - mostly investments in loans and shares - are classified into the categories described under the two headings below. Financial assets are classified as current if the remaining term to maturity is less than 12 months at the balance sheet date. They are classified as non-current if the remaining term to maturity is longer than 12 months. Measurement depends on the classification of the financial asset.

Loans and receivables

Loans and receivables are primary financial instruments with fixed or floating payments that are not listed on active markets. Initial measurement of these loans and receivables is at fair value, generally being the cost of the financial asset. Loans and receivables are subsequently measured at amortised cost using the effective interest method.

If the fair value of these financial assets has been hedged, the amortised cost is adjusted for the gain or loss attributable to the hedged risk. These adjustments are recognised in the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value both on initial recognition and throughout the period for which an asset is held. Changes in fair value are recognised through equity (other comprehensive income). When these assets are sold, the accumulated changes in value recognised through equity are recognised in the income statement. Interest income is recognised in the income statement in the period to which it is attributable. Investments in shares or other equity instruments not listed on an active market and whose fair value cannot be estimated reliably are recognised at cost subsequent to initial recognition.

Derivatives and hedge accounting

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

Derivatives are classified as current or non-current assets if the fair value is positive and as current or non-current liabilities if the fair value is negative. Derivative receivables and payables with the same counterparty are netted if there is a right to do so and Alliander has the intention to settle the transaction on a net basis.

Accounting for movements in fair value of derivatives

The accounting treatment for the movements in the fair value of derivatives depends on whether the derivative is designated as held for trading or as a hedge (and recognised as such for accounting purposes in an effective hedge), and if the latter is the case, the risk that is being hedged.

Commodity contracts intended for use by the company

Alliander uses energy commodity contracts for physical purchases of electricity and green certificates (renewable energy certificates - RECs) for network losses occurring in the distribution of electricity. For these contracts, transactions are recognised on the delivery date at the then applicable prices. Contracts are designated as own-use contracts, as contracts for trading or as hedges on the date on which they are entered into.

Hedge accounting

Alliander uses derivatives to hedge foreign exchange risks on assets and liabilities, interest rate risks on long-term loans and price risks arising from energy commodity contracts. These hedge transactions can be divided into two categories:

- fair value hedging: these are instruments hedging the risk of movements in the fair value of assets and/or liabilities, or a part thereof, carried on the face of the balance sheet, or firm commitments, or a part thereof, that may affect profit or loss. A firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates. Fair value movements of derivatives that are designated as fair value hedges are recognised in the income statement, together with the movements in the fair value of the assets or liabilities or groups thereof, that are attributable to the hedged risk;
- Cash flow hedging: these are instruments hedging the risk of movements in future cash flows that may affect profit or loss. The hedges are attributable to a specific risk that is related to a balance sheet item or a future transaction that is highly probable. The effective part of the changes in the fair value of the hedge reserve is recognised in shareholders' equity under the hedge reserves. The non-effective part is taken to the income statement. The accumulated amounts recognised in equity are transferred to the income statement in the period in which the hedged transaction is recognised in the income statement. However, if a forecast transaction that is hedged leads to the recognition of a non-financial asset or liability, the accumulated gains and losses on the hedges are included in the initial measurement of the asset or liability involved. If a hedge ceases to exist or is sold, or when the criteria for hedge accounting are no longer being met, the accumulated fair value movements are held in equity until the forecast transaction is recognised in the income statement. If a forecast transaction is no longer expected to occur, the accumulated fair value movements that were recognised in equity are recognised through the income statement.

Other derivatives

Fair value gains and losses on other derivatives are recognised in the income statement.

Leases where Alliander acts as lessor

Operating leases

Alliander has entered into operating leases for district heating networks and energy-related installations. Operating leases are leases that are not designated as finance leases. Risks and rewards incidental to ownership of the assets concerned are not, or not substantially, transferred to the lessee.

The assets that are leased to third parties under operating leases are classified as property, plant and equipment. The proceeds from operating leases are recognised through the income statement as operating income over the lease period.

Finance leases

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

Finance lease receivables are included in financial assets and other receivables. The proceeds from finance leases are recognised through the income statement as finance income over the lease period.

Inventories

Inventories are measured at the lower of cost and net realisable value. These inventories consist of raw materials and consumables, inventories in process of production and finished goods. The cost of inventories is determined using the FIFO (first-in, first-out) method. Net realisable value is measured using the estimated sales price in normal operating circumstances, less the estimated costs to sell.

Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently at amortised cost less impairment. Due to the usually short term of these liabilities, the fair value and amortised cost are generally equal to the face value. Impairment losses are recognised through the income statement when it can be determined objectively that an amount is not collectible.

Cash and cash equivalents

Cash and cash equivalents comprise all liquid financial instruments with a maturity date at inception of less than three months. Cash and cash equivalents include cash in hand, bank balances, money market loans and short-term deposits. Overdrafts are only classified as cash and cash equivalents if Alliander has the right to net debit and credit balances, the debit and credit balances are held with the same bank and Alliander has the intention to exercise this right and also actually does so.

Cash and cash equivalents are measured at fair value on initial recognition and subsequently at amortised cost, which in general equals the face value. Cash and cash equivalents also include cash and cash equivalents to which Alliander does not have free access. Amounts owed to credit institutions are recognised as interest-bearing debt.

Interest-bearing debt

Interest-bearing debt consists primarily of loans and is initially measured in the balance sheet at the fair value of the consideration receivable, less transaction costs. With the exception of derivatives, it is subsequently measured at amortised cost. Where the interest-bearing debt is hedged by means of a fair value hedging instrument, the amortised cost of the interest-bearing debt is adjusted for the movement in fair value attributable to the hedged risk. These adjustments are recognised in the income statement.

Leases where Alliander acts as lessee

Finance leases

Alliander has concluded a number of leases. If substantially all risks and rewards incidental to ownership of the assets are transferred to Alliander, the lease is recognised as a finance lease. In that case, an asset and a liability are recognised equal to the lower of the fair value and the net present value of the related future lease obligations when the lease is entered into. The asset is depreciated over the shorter of the useful life of the asset and the term of the lease contract. Consequently, the lease instalments are treated as the repayment of principal and interest to the counterparty (lessor). The interest expenses reflect the effective interest on the investment made by the lessor.

The assets that Alliander holds under finance leases are classified under the item property, plant and equipment. The corresponding lease obligations are recognised as current and non-current liabilities, depending on whether the lease instalments are due within or after 12 months of the balance sheet date.

Operating leases

Operating leases are leases that are not classified as finance leases and where the risks and rewards incidental to ownership of the assets have not, or not substantially, been transferred to the lessee. The cost of operating leases is recognised through the income statement in equal instalments over the lease period.

Construction contributions, government and investment grants

Construction contributions

Construction contributions and payments received from customers, property developers and local and regional authorities for the costs incurred for the electricity and gas infrastructure of new housing projects and industrial estates are recognised as deferred income in the balance sheet. Deferred income is amortised over the expected useful lives of the assets involved. The amortisation is recognised through the income statement as other income.

Government subsidies and investment grants

Government subsidies and investment grants are recognised if there is reasonable certainty that the criteria for receiving the grant are or will be met, and that the grant will be received. Grants received for capital expenditure on property, plant and equipment are recognised as deferred income in the balance sheet and are amortised over the expected useful lives of the assets involved. The amortisation is recognised through the income statement as other income.

Government grants and operating subsidies that do not relate to capital expenditure on property, plant and equipment or other non-current assets are taken to income when the associated costs are incurred.

Tax

Deferred tax assets and liabilities that arise from taxable temporary differences between the carrying amount in the financial statements and the carrying amount for tax purposes are determined using the corporate income tax rates that are currently applicable or will be applicable, under current legislation, at the time of settlement of the deferred tax asset or liability. Deferred tax assets, arising, for example, from operating losses, are only recognised if it is probable that sufficient future taxable profits will be available - accounting for them at tax group level. Deferred tax assets and liabilities are only set off if Alliander has a legal right to offset and the assets and liabilities relate to taxes that are levied by the same authority. Deferred tax assets and liabilities are measured at face value.

The corporate income tax charge is determined using the applicable rates for corporate income tax and are recognised at face value. Permanent differences between the results for tax purposes and financial reporting purposes and the ability to utilise tax losses carried forward are taken into account if deferred tax assets have not been recognised for these tax losses.

Provisions for employee benefits

Multi-employer plans

Alliander has a number of defined benefit plans and defined contribution plans for which contributions are generally paid to pension funds or insurance companies. The main pension schemes, which are administered by ABP, take the form of multi-employer plans. Although the pension plans offered by these arrangements are, in fact, defined benefit plans, these plans are treated as defined contribution plans as Alliander does not have access to the required information and its participation in the multi-employer plans exposes it to actuarial risks that relate to the present and former employees of other entities. The pension contributions due for the financial year are accounted for as pension costs in the financial statements. Where there is an agreement for a multi-employer plan that specifies how a surplus is distributed to the participants or a deficit is to be financed and where the plan is accounted for as a defined contribution plan, a receivable or payable arising from the agreement is recognised in the balance sheet. The resulting gains or losses are recognised in the income statement. The pensions of by far the majority of Alliander's workforce are managed by the ABP pension fund and do not have such contractual agreements.

As a result, no asset or liability has been recognised in the balance sheet. The contributions paid during the year are recognised in the income statement. The same applies to the pensions administered by BPF Bouw and Pensioenfondsvoor Metaal en Techniek.

In addition to the above multi-employer pension plans in the Netherlands, Alliander has two defined benefit plans relating to subsidiaries in Germany, although these are not of material importance. These plans are accounted for in accordance with the amended IAS 19.

Pensions and other post-employment benefits

Pensions and other post-employment benefits include, amongst other things, the medical benefit scheme for retired employees. This scheme has not been transferred to an external insurance company or pension fund. The amount of the liability carried on the face of the balance sheet in respect of the medical and other post-employment benefits is made up of the net present value of the gross liability in respect of the defined medical benefit obligation plus or less actuarial gains and losses and less past-service costs not yet recognised as at balance sheet date. These components are computed actuarially.

The present value of the medical benefit obligation is determined using the projected unit credit method, which takes into account the accrued entitlements at the balance sheet date and changes in the entitlements. The costs for the medical benefit scheme attributable to the year of service and the accretion of interest to the provision are recognised in employee benefits in the income statement.

Other long-term employee benefits

Other long-term employee benefits include plans, other than pension plans, in which payment does not occur within 12 months after the end of the period in which the employees render the related service. These plans consist of long-term sickness benefits, long-service benefits, payments on reaching retirement age and incapacity benefits for former employees and additional annual leave for older employees. These obligations have not been transferred to pension funds or insurance companies. The obligation for other long-term employee benefits in the balance sheet consists of the net present value of the vested benefits. If appropriate, estimates are made of future salary rises, employee turnover and similar factors. These factors form part of the calculation of the provision. Changes in the provision resulting from changes in actuarial assumptions and benefits are taken directly to the income statement. The service costs attributable to the year of service and the accretion of interest to the provision are recognised in employee benefits in the income statement.

Termination benefits/restructuring

Termination benefits are benefits resulting from a decision by Alliander to terminate the employment contract before the normal retirement date or the voluntary decision of an employee to agree to the termination of the employment contract. The nature and the amount of the termination benefits are laid down in the Social Plan. The Social Plan is renegotiated periodically. A provision is only recognised if Alliander has drawn up a detailed restructuring plan which has been approved and communicated and it is not probable that the plan will be withdrawn at a later date. The amount of the provision is measured at the best estimate of the amount needed to settle the obligation. If the payment is expected to occur more than 12 months after the balance sheet date, the provision is stated at net present value.

Other provisions

Provisions are recognised when:

- there is a legal and/or constructive obligation at the balance sheet date arising from events that occurred before the balance sheet date;
- it can be reasonably assumed that an outflow of economic resources will be required to settle the obligation and a reliable estimate of the obligation can be made.

Provisions are measured at the face value of the amounts deemed necessary to settle the obligation, unless the time value of money is significant. In that case, the provision is stated at net present value. The accretion of interest is recognised as finance expense in the income statement.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently at amortised cost. Due to the usually short term of these liabilities, the fair value and amortised cost are generally equal to the face value.

Revenue recognition

Revenue is recognised at the fair value of the transaction in the period in which the supply of goods and services takes place. In addition, revenue is only recognised when the risks and rewards of ownership have been transferred to the customer, it is probable that the economic benefits will flow to Alliander and the proceeds can be measured reliably.

Revenue

Revenue is made up of:

- regulated revenue, i.e. revenue from the distribution of electricity and gas to customers and from connecting customers, including fixed components, referred to as the capacity tariff. Also included in this figure is the revenue from providing electricity and gas metering services for small-scale users. For the provision of these various services in the retail market in the period from the final statement for the year up to the balance sheet date, estimates are made of revenue to be billed;
- deregulated revenue such as from large-user metering services, transformer rental charges and maintenance of complex energy infrastructures.

Other income

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

- amortisation of construction contributions, and government and investment grants; for details, reference is made to the relevant accounting policies;
- results on the disposal of property, plant and equipment, i.e. the balance of the net proceeds from the sale and the carrying amounts of the assets disposed of. Gains and losses on the disposal of assets are presented net.

Purchase costs and costs of subcontracted work

This includes the costs of network losses, including the expected effects of reconciliation, the costs of distribution capacity and distribution restrictions and the costs of compensation payments. It also includes the costs of raw materials, consumables and supplies used for the supply of goods and services and the cost of subcontracted work such as billing and payment collection and engagement of subcontractors.

Own work capitalised

This item includes the costs of Alliander staff incurred on capital expenditure projects.

Finance income

This item consists of the interest income on financial interest-bearing assets, i.e. loans, receivables, money market loans and deposits, measured using the effective interest method, and income from foreign currency results and movements in the fair value of interest rate derivatives.

Finance expense

This item consists of the following:

- interest expenses; this includes the interest expenses on interest-bearing liabilities, measured using the effective interest method. Interest-bearing liabilities consist of loans, liabilities under the Euro Medium Term Notes programme, subordinated and green loans and commercial paper, with the exception of the subordinated perpetual bond loan. Also included with interest expenses are other finance-related costs, such as letters of credit, commitment fees and premium paid in connection with the early redemption of corporate bonds issued by the company etc.;
- foreign exchange differences; foreign exchange differences arising from the translation of transactions denominated in foreign currencies, financial assets and liabilities and derivatives in foreign currencies, except for the results of cash flow hedges, which are initially recognised in equity;
- fair value movements on interest rate derivatives that are used to hedge future cash flows and the corresponding adjustment of the amortised cost of hedged financial assets and liabilities for the movement in the value of the hedged risk; and
- results on terminating cross-border leases or other financing contracts.

Policies for the consolidated cash flow statement

The cash flow statement is prepared using the indirect method. The movement in cash and cash equivalents is derived from profit after tax according to the income statement. Exchange differences and all other movements not resulting in cash flows are eliminated. The same applies to the finance income and expense and the corporate income tax recognised in the income statement. These items are replaced in the cash flow from operating activities by the interest paid/received and the tax paid/received, respectively. The financial consequences of the acquisition or sale of associates and subsidiaries are shown separately in the cash flow from investing activities. As a result, the cash flows presented are not reconcilable with the changes in the consolidated balance sheets.

The definition of cash and cash equivalents in the cash flow statement is the same as that used in the balance sheet.

Note 1 Business combinations

General

2017

There were no acquisitions in 2017.

2016

Sale of Endinet and purchase of networks in Friesland and the Noordoostpolder (AEF B.V.)

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

Alliander acquired total control of AEF B.V. on 1 January 2016 and has included the company in the Alliander consolidation with effect from that date.

The final purchase price for AEF was established at fair value at €335 million based on its figures for 2015 and including settlements.

Purchase of 450connect GmbH

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

Alliander AG acquired total control of 450connect on 31 May 2016 and has included the company in the Alliander AG consolidation with effect from that date.

The total purchase price paid on 31 May 2016 amounted to €18 million, made up of a cash payment of €5 million and a contingent consideration valued at €13 million as at 31 May 2016. The final amount of the contingent consideration, agreed with the former shareholders, will depend on the future number of new connections secured, with a maximum of €30 million. The fair value of this consideration has been measured on the basis of new connection acquisition projections and other factors.

Note 2 Segment information

Alliander distinguishes the following reporting segments in 2017:

- Network operator Liander;
- Other.

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

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

The Other segment covers the entirety of the other operating segments within the Alliander group, such as the activities of Liandon, Stam and Alliander AG, new activities, the corporate staff departments and the service units. Liandon provides services relating to the construction and maintenance of complex energy infrastructures, on behalf of Liander as well as third parties. Alliander AG carries on network operation and public lighting activities in Germany. Stam is a medium-sized firm of contractors based in Noord- Holland, engaging in network construction and maintenance work. These activities are undertaken on behalf of third parties as well as on contract to Liander. Established as well as new activities include targeted investments in the infrastructure for electric vehicles, sustainable area development and sustainable housing. The corporate staff departments and service units include Shared Services and IT, which perform activities on behalf of Liander among others. All these activities can be combined into a single segment inasmuch as they do not satisfy the quantitative criteria in order to qualify separately as reporting segments.

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

Reporting

Alliander produces monthly management reports for the Management Board, with quarterly reports for the Supervisory Board as well. As regards both balance sheet and income statement, these reports use the same accounting policies and classification as the financial information contained in the financial statements. The Management Board assesses the performance of the business on the basis of these reports. The financial reports focus on the consolidated and segment information concerning operating expenses. The operating result is also included on a comparable basis, i.e. excluding incidental items and fair value movements. The operating result is total income less total expenses.

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

Notes

The external revenue of Liander mainly comprises income from energy transport, connection and metering services. In the Other segment, external revenue mainly derives from the services provided by Liandon, new activities and Stam and the income from network operation activities in Germany. The eliminations result from the internal services provided by corporate staff departments, service units (such as IT and Shared Services) and Stam to Liander. These internal supplies are made at cost.

Primary Segmentation

€ million	Network operator Lliander		Other		Eliminations		Total		Reclassification to reported, incidental items and IFRS 5		Reported	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Income statement												
Operating income												
External revenue	1,681	1,582	159	141	-	-	1,840	1,723	-	-	1,840	1,723
Internal revenue	5	3	331	331	-336	-334	-	-	-	-	-	-
Total income	1,686	1,585	490	472	-336	-334	1,840	1,723	-	-	1,840	1,723
Operating expenses												
Purchase costs and costs of subcontracted work	444	432	68	67	-110	-97	402	402	-	-	402	402
Operating expenses	713	682	474	452	-226	-237	961	897	4	21	965	918
Depreciation and impairment	317	303	79	79	-	-	396	382	-	13	396	395
Own work capitalised	-161	-140	-67	-59	-	-	-228	-199	-	-	-228	-199
Total operating expenses	1,313	1,277	554	539	-336	-334	1,531	1,482	4	34	1,535	1,516
Operating profit	373	308	-64	-67	-	-	309	241	-4	-34	305	207
Finance income	17	11	149	126	-99	-119	67	18	-	-	67	18
Finance expense	-104	-126	-105	-65	99	119	-110	-72	-	-	-110	-72
Share in results of associates and joint ventures after tax	1	2	8	-7	-	-	9	-5	-	-	9	-5
Tax	-72	-48	3	-2	-	-	-69	-50	1	8	-68	-42
Profit after tax from continuing operations	215	147	-9	-15	-	-	206	132	-3	-26	203	106
Segmented assets and liabilities												
Total assets	7,140	6,985	3,147	2,386	-2,218	-1,636	8,069	7,735	-	-	8,069	7,735
Non-consolidated investments in associates	2	-	1	6	-	-	3	6	-	-	3	6
Non-consolidated investments in joint ventures	-	3	-	-	-	-	-	3	-	-	-	3
Liabilities (non-current and current)	4,706	5,216	2,088	1,858	-2,668	-3,203	4,126	3,871	-	-	4,127	3,871
Other segment items												
Investments in property, plant and equipment	565	551	101	129	-	-	666	680	-	-	666	680
Number of permanent staff at end of year	3,014	3,024	2,741	2,659	-	-	5,755	5,682	-	-	5,755	5,682

The profit after tax for 2017, like that for 2016, is almost entirely attributable to the shareholders of Alliander N.V..

Reclassification to reported and incidental items

In 2017 there are some incidental items in the column headed 'Reclassification to reported, incidental items and IFRS 5'. Out of the incidental expenses included in operating expenses, €4 million (2016: €21 million) relates to reorganisation costs.

The incidental expense depreciation and impairment is nil (2016: €13 million). In 2016, this incidental expense stemmed from the annual impairment triggering event analysis process and associated impairment calculations and concerns accelerated depreciation of transformers, part of the network in Germany, unoccupied buildings and part of the CDMA network.

Segmented assets

The amounts in the eliminations column against total assets mainly concern the eliminations of the investments in subsidiaries Lliander. The eliminations against the liabilities relate to the current-account positions between the subsidiaries and Alliander. Within the Alliander group, there are group financing arrangements, involving central administration of external accounts. All the subsidiaries maintain a current account with Alliander. There are no assets or equity and liabilities that are not allocated.

Geographical segmentation

€ million	External revenue		Property, plant and equipment		Intangible assets		Non-consolidated associates and joint ventures	
	2017	2016	2017	2016	2017	2016	2017	2016
Netherlands	1,796	1,686	6,729	6,473	290	291	3	10
Rest of the world	44	37	64	56	27	28	-	-
Total	1,840	1,723	6,793	6,529	317	319	3	10

'Rest of the world' relates entirely to the activities in Germany, the UK and Belgium.

Note 3 Property, plant and equipment

€ million	Land and buildings	Networks	Other plant and equipment	Assets under construction	Total
As at 1 January 2016					
Historical cost	234	9,201	1,492	180	11,107
Accumulated depreciation and impairment	-83	-4,228	-897	-	-5,208
Carrying amount as at 1 January 2016	151	4,973	595	180	5,899
Movements in 2016					
Investments	-	342	173	165	680
Divestments	-	-14	-15	-3	-32
Depreciation	-9	-238	-109	-1	-357
Impairments	-	-5	-	-	-5
New consolidations	-	328	14	2	344
Reclassifications and other movements	9	64	51	-124	-
Total	-	477	114	39	630
As at 31 December 2016					
Historical cost	244	9,886	1,637	219	11,986
Accumulated depreciation and impairment	-93	-4,436	-928	-	-5,457
Carrying amount as at 31 December 2016	151	5,450	709	219	6,529
Movements in 2017					
Investments	-	372	157	137	666
Divestments	-	-24	-15	-	-39
Depreciation	-8	-245	-110	-	-363
Reclassifications and other movements	29	63	64	-156	-
Total	21	166	96	-19	264
As at 31 December 2017					
Historical cost	273	10,242	1,771	200	12,486
Accumulated depreciation and impairment	-101	-4,626	-966	-	-5,693
Carrying amount as at 31 December 2017	172	5,616	805	200	6,793

Capital expenditure

Capital expenditure on property, plant and equipment totalled €666 million (2016: €680 million).

Divestments

Divestment in 2016 and 2017 related to decommissioning of network and other assets. In 2017, this included the sale of the high voltage network in the central Netherlands (€6 million).

Cross-border lease transactions

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

There were no changes in the existing CBL portfolio in 2017. The three transactions currently remaining relate to gas networks in Friesland, Gelderland, Flevoland, Noord-Holland and Utrecht, district heating networks in Almere and Duiven/Westervoort and the electricity network in the Randmeren region. The networks have been leased for a long period to US parties (head lease), which have in turn subleased the assets to the various Alliander subsidiaries (sublease). At the end of the sublease there is the option of purchasing the rights of the American counterparty under the head lease, thus ending the transaction. The terms agreed for the subleases expire between 2022 and 2028. The fees earned on the cross-border leases were recognised in the year in which the transaction in question was concluded. There are conditional and unconditional contractual rights and obligations relating to the cross-border leases.

The total net carrying amount of the networks covered by cross-border leases at year-end 2017 was approximately €600 million (year-end 2016: €560 million). At the end of 2017, a total of \$2,781 million (2016: \$2,733 million) was held on deposit with several financial institutions or invested in securities in connection with these transactions.

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

At the end of 2017, the 'strip risk' (the portion of the 'termination value' - the possible compensation payable to the American counterparty in the event of premature termination of the transaction - which cannot be settled from the deposits and investments held for this purpose) for all transactions together was \$186 million (2016: \$194 million). The strip risk is affected to a large extent by market developments.

In connection with the implementation of the Independent Network Operation Act, the heating networks belonging to Liander Infra N.V. that had been covered by a cross-border lease were subleased in mid-2008 to N.V. Nuon Warmte, part of N.V. Nuon Energy. These operating leases have a term of 12.5 years (term runs to 31 December 2020). The total carrying amount of the subleased heating networks and associated meters as at 31 December 2017 was €93 million (2016: €95 million).

Note 4 Intangible assets

€ million	Goodwill	Other intangible assets	Total
As at 1 January 2016			
Historical cost	465	4	469
Accumulated depreciation and impairment	-187	-2	-189
Carrying amount as at 1 January 2016	278	2	280
Movements in 2016			
Investments	12	-	12
New consolidations	-	29	29
Depreciation	-	-1	-1
Impairments	-1	-	-1
Total	11	28	39
As at 31 December 2016			
Historical cost	477	33	510
Accumulated depreciation and impairment	-188	-3	-191
Carrying amount as at 31 December 2016	289	30	319
Movements in 2017			
Depreciation	-	-2	-2
Total	-	-2	-2
As at 31 December 2017			
Historical cost	477	33	510
Accumulated depreciation and impairment	-188	-5	-193
Carrying amount as at 31 December 2017	289	28	317

There were no investments in intangible assets in 2017. The amortisation charge of €2 million relates to the intangible assets of 450connect.

The investment in goodwill in 2016 relates to the acquisitions of AEF B.V. (€9 million) and 450connect (€3 million). For further disclosures, see note [1].

The new consolidations in 2016 concern the intangible assets acquired, carried on the balance sheets of AEF B.V. (€3 million) and 450connect (€26 million). The intangible assets of AEF B.V. consist of installation leases. The remaining amortisation period is 15 years. In the case of 450connect, the intangible assets are two licences relating to the 450 MHz frequency bands. These licences will be amortised over 20 years. Amortisation amounting to €1 million was recognised on this balance sheet item in 2016.

The impairment loss of €1 million in 2016 relates to the electricity and gas distribution networks in Heinsberg, following the impairment test at the end of 2016.

Goodwill allocation by segment

€ million	2017	2016
Liander	286	286
Other	3	3
Total	289	289

Of the total amount of goodwill allocated to Liander as at year-end 2017, €209 million (2016: €209 million) relates to electricity and gas networks and dates from the contribution of the networks when n.v. Nuon was created in 1999. Of the remainder, amounting to €77 million (2016: €77 million), €61 million relates to the purchase of Endinet in 2010, €7 million to Stam and €9 million to the aforementioned purchase of AEF B.V. in 2016.

The goodwill item in the other line concerns the investment relating to 450connect.

At year-end 2017, impairment tests were performed on the carrying amounts of the networks of Liander and the German networks, including the associated goodwill recognised. The value in use was taken as the basis for this calculation. The value in use was measured on the basis of the most recent business plans.

In the 2017 reporting period, Liander used a pre-tax discount rate of 5.1% (2016: 5.6%). From 2018 onwards, the figure will drop to 4.5% up to 2022.

The main assumptions on which these business plans are based are the number of connections, the most recent tariff estimates and estimates of operating expenses and other costs. To a large extent, these assumptions are based on past experience, coupled with the latest information on tariff regulation. The business plans cover a period of five years and the terminal value is calculated using the projected cash flows at the end of that period. A zero growth rate has been applied. The terminal value for the regulated activities is based on achieving the 'reasonable return' that a network operator can expect to achieve on its standardised asset value. Where appropriate, account is also taken of temporary or structural synergistic effects or other departures from the reasonable return. There is such a margin between the value in use and the carrying amount of the Liander networks that the sensitivity to changes in the estimates and assumptions used is limited.

As regards the networks in Germany, the discount rate used has been arrived at using the calculation method adopted by the German regulator, which gives a pre-tax discount rate of 5.1% in 2017 (2016: 7.0%). For the period 2018–2022, the rate remains 5.1%.

Otherwise the underlying assumptions were the same as for Liander. A combination of the discontinuation of two concessions and a change in the law regarding the sales value of the networks in 2016 meant that the value in use as at year-end 2016 was €6 million lower than the carrying amount, €1 million of this impairment being charged to goodwill and €5 million deducted from the carrying amount of the networks in Germany.

Note 5 Investments in associates and joint ventures

€ million	Associates		Joint ventures		Total	
	2017	2016	2017	2016	2017	2016
Carrying amount as at 1 January	6	8	3	1	9	9
Movements						
Investments	-	5	-	-	-	5
Divestments	-2	-	-	-	-2	-
Share in results	-3	-4	1	2	-2	-2
Impairments	-	-3	-	-	-	-3
Dividend and other movements	-	-	-2	-	-2	-
Total	-5	-2	-1	2	-6	-
Carrying amount as at 31 December	1	6	2	3	3	9

in 2017, Alliander disposed of its non-controlling interests in Redstack, The New Motion and Ziut. A book profit of €11 million was achieved on the sale of these interests.

In the case of a number of associates, Alliander's interest is less than 20%. For details, see the list of principal subsidiaries, associates and joint arrangements in the 'Other information' part of the report. In view of the degree of control in relation to the associates concerned, however, it has been determined that there is significant influence and the investments have been included in the investments in associates.

Share in results of associates and joint ventures

€ million	Associates		Joint ventures		Comprehensive income	
	2017	2016	2017	2016	2017	2016
Share in						
Profit or loss from continued activities	-3	-7	1	2	-2	-5
Profit or loss from discontinued activities	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Comprehensive income	-3	-7	1	2	-2	-5

Alliander has concluded arrangements with associates and joint ventures for granting finance and credit facilities totalling €37 million as at year-end 2017 (2016: €39 million). Under these facilities, an amount of €22 million was drawn down as at 31 December 2017 (2016: €19 million). The arrangements include convertible loans of €3 million (2016: €7 million). Additionally, as at year-end 2017, there was also a receivable under this heading amounting to €25 million in relation to an overdraft facility (2016: €9 million payable). The loans and accrued interest and repayments in the case of two of the entities concerned have been written off. The pledge obtained on a loan granted in 2014 stood at €2 million as at 31 December 2017 (2016: €2 million).

Note 6 Available-for-sale financial assets

€ million	
Carrying amount as at 1 January 2016	229
Movements in 2016	
Currency translation differences	5
Fair value movements	-10
Total	-5
Carrying amount as at 31 December 2016	224
Movements in 2017	
Currency translation differences	-20
Fair value movements	-11
Total	-31
Carrying amount as at 31 December 2017	193

Available-for-sale financial assets as at year-end 2017 comprises investments in a debt instrument issued by a large financial institution which serves to cover obligations arising from two cross-border lease contracts (2016: €224 million). The carrying amount of the related lease obligations was €148 million at year-end 2016 (2016: €168 million).

Note 7 Other financial assets (including current portion)

€ million	Loans, receivables and other
Carrying amount as at 1 January 2016	67
Effective interest rate 2016	1%
Movements in 2016	
Loans granted	332
Loans and interest repaid	-344
Writedown on loan to associate	-2
Total	-14
Carrying amount as at 31 December 2016	53
Effective interest rate 2017	1%
Movements in 2017	
Loans granted	50
Loans and interest repaid	-61
Writedown on loan to associate	-1
Total	-12
Carrying amount as at 31 December 2017	41
Non-current portion of other financial assets	39
Current portion of other financial assets	2

At the end of 2017, in the same way as the previous year, the carrying amount of the other financial assets comprised receivables, loans and capitalised costs denominated in euros. In 2017 this included a long-term receivable of €18 million from the City of Amsterdam relating to the Spaklerweg site.

The loans granted and repaid in 2016 and 2017 were mainly in the form of short-term deposits.

Note 8 Derivatives

€ million	Current assets		Non-current assets		Short-term liabilities		Non-current liabilities	
	2017	2016	2017	2016	2017	2016	2017	2016
Foreign exchange contracts	-	-	-	-	2	-	-	-
Carrying amount as at 31 December	-	-	-	-	2	-	-	-

Derivatives are measured at fair value.

Financing was raised in 2017 under the Euro Commercial Paper Programme, denominated in foreign currency. In order to eliminate currency risks, the foreign currency was immediately converted into euros by means of foreign exchange swaps. The value of this short-term derivative as at year-end 2017 amounted to €2.2 million (2016: nil) and concerned three foreign exchange swaps to hedge the currency risk.

Note 9 Inventories

€ million	2017	2016
Raw materials and consumables	36	50
Finished goods	38	14
Carrying amount as at 31 December	74	64

The impairment of inventories in 2017 was €5 million (2016: nil). These losses were mainly recognised in respect of smart meters.

Note 10 Trade and other receivables

€ million	2017	2016
Trade receivables	82	65
Impairments of trade receivables	-10	-12
Trade receivables	72	53
Corporate income tax	39	31
Other receivables	55	29
Accrued income and prepayments	176	160
Carrying amount as at 31 December	342	273

At the end of 2016, impairment of trade receivables totalled €10 million (2016: €12 million). The impairment loss on trade receivables recognised in the income statement in 2017 amounted to €1 million (2016: €4 million). For further information, see the credit risk section of note [34].

The other receivables include an amount of €22 million (2016: €6 million) owed by the non-controlling interest Reddyn.

In November 2010, Alliander issued a subordinated perpetual bond loan with a nominal value of €500 million. In the closing two months of 2013, this subordinated perpetual bond loan was redeemed. Under IFRS, an instrument of this kind qualifies as equity. 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 ongoing appeal proceedings, the District Court at Arnhem upheld Alliander's appeal in a ruling dated 20 December 2016. The Dutch Tax & Customs Administration has now taken the case to the Court of Appeal. In 2016 and 2017, assessments for corporate income tax were imposed in respect of the period 2010–2013 which did not allow for the above deductible interest expense.

Based on the advice of external consultants, the Management Board decided to recognise a receivable in respect of the disputed corporate income tax paid. A similar question hangs over the withholding tax payable on dividends. No withholding tax assessments (final or provisional) have been paid. Again, having consulted outside experts, the Management Board decided not to recognise a provision in this respect. As at year-end 2017, the total maximum exposure for Alliander including interest was €37 million.

Note 11 Cash and cash equivalents

€ million	2017	2016
Cash held at banks	36	11
Deposits	65	37
Carrying amount as at 31 December	101	48

The effective interest rate on cash and cash equivalents ranged from -0.55% to -0.43% (2016: -0.62% to 0.0%). Cash and cash equivalents are held almost entirely in euros. In 2017, there were amounts of cash and deposits which were not at the unrestricted disposal of Alliander. This concerns a blocked bank account with a balance of €1 million (2016: nil).

Note 12 Equity

Authorised capital

The company's authorised capital is divided into 350 million shares of €5 nominal value. As at year-end 2017, 136,794,964 shares were in issue (2016: 136,794,964).

Subordinated perpetual bond loan

On 27 November 2013, Alliander issued a subordinated perpetual bond loan with a nominal amount of €500 million and a coupon of 3.25% at an issue price of 99.434%, raising an amount of €497 million. The directly attributable costs of €1 million were deducted from this amount, so that €496 million was added to equity. This subordinated perpetual bond loan is treated as equity. Alliander does not have any contractual obligation to repay the loan. Any periodical payments on the loan are conditional and depend on payments to shareholders. As and when resolutions are passed making distributions to shareholders, the Management Board will also pay any arrears of the contractual coupon interest to the holders of the subordinated perpetual bond loan out of other reserves. The annual amount of the interest payable is €16 million.

Revaluation reserve

The revaluation reserve is connected with the available-for-sale financial assets. The decrease of €8 million in the revaluation reserve in 2017 is accounted for by the decrease in value of the available-for-sale financial assets.

Other

The other reserve includes an amount of €0.6 million after tax relating to a defined-benefit pension plan for employees of our activities in Germany.

The hedge reserve, the revaluation reserve and the subordinated perpetual bond loan are not freely distributable.

Non-controlling interest

On 10 July 2012, Alliander acquired a 95% interest in Indigo B.V. This company is a partnership between Alliander and the City of Nijmegen (which has an interest of 5%) to construct a heat transport pipeline from the regional waste-to-energy plant Afvalverwerking Regio Nijmegen (ARN) to the district heating network of Nuon Energy. As at the end of the reporting period, the shareholders' equity of Indigo BV amounted to €4 million. In accordance with the basis of Alliander's consolidation, Indigo BV has been consolidated in full with separate disclosure of a non-controlling interest in the consolidated equity. In 2016, Alliander acquired a 95% interest in Warmtenet Hengelo B.V., a company which is developing a district heating system, the first phase of which was commissioned in 2017. The shareholders' equity of this company as at year-end 2017 amounted to €-0.2 million. In 2017, Alliander had a 75% interest in Warmte-Infrastructuur Limburg Geothermie BV. However, the amount of these non-controlling interests, means that they are not visibly accounted for on the face of the balance sheet as at year-end 2017

Note 13 Interest-bearing debt

€ million	2017	2016
Carrying amount as at 1 January	1,564	1,668
Movements		
New loans ¹	1,156	843
Loans repaid ¹	-903	-941
Currency translation differences	-33	-5
Total	220	-104
Carrying amount as at 31 December	1,784	1,564

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

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

Short and long-term interest-bearing debt

€ million	Effective interest rate		Current portion		Non-current portion	
	2017	2016	2017	2016	2017	2016
Subordinated loans	8.6%	8.6%	6	5	70	76
Private and green loans	1.3%	1.1%	-	1	87	12
Euro Medium Term Notes	2.6%	2.6%	-	-	1,395	1,394
Euro Commercial Paper	0.7%	0.0%	225	75	-	-
Other	0.0%	0.0%	-	-	1	1
Carrying amount as at 31 December			231	81	1,553	1,483

Short-term interest-bearing debt, amounting to €231 million as at year-end 2017 (2016: €81 million), is made up of the current portion of the long-term debt and the Euro Commercial Paper.

As at year-end 2017, a carrying amount of €1,395 million (face value €1,400 million) had been issued under the EMTN programme. The notes issued under the EMTN programme are listed on the Amsterdam and Luxembourg stock exchanges. At the end of 2017, €225 million in short-term finance had been raised under the ECP programme (2016: €75 million).

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

Subordinated loans

These loans carry interest at rates of 8% to 10%. These loans are subordinated to other liabilities.

Maturities of interest-bearing debt

€ million	2017	2016
Less than 1 year	231	81
Between 1 and 2 years	305	6
Between 2 and 3 years	8	306
Between 3 and 4 years	8	7
Between 4 and 5 years	408	8
Over 5 years	824	1,156
Carrying amount as at 31 December	1,784	1,564

Note 14 Deferred income

€ million	2017	2016
Carrying amount as at 1 January	1,597	1,559
Contributions received	103	99
Amortisation recognised as income	-71	-66
Reclassification	-	5
Carrying amount as at 31 December	1,629	1,597

Deferred income relates to construction contributions, investment grants and subsidies received. The amortisation periods of the construction contributions, investment grants and subsidies are equal to the depreciation periods of the underlying assets (ranging from 10 to 50 years).

Note 15 Provisions for employee benefits

€ million	Current portion		Non-current portion		Total	
	2017	2016	2017	2016	2017	2016
Long-term employee benefits						
Post-employment benefits	-	-	2	2	2	2
Other long-term employee benefits	12	9	40	42	52	51
Termination/reorganisation benefits	5	12	7	6	12	18
Total	17	21	49	50	66	71
Short-term employee benefits						
Short-term employee benefits	16	25	-	-	16	25
Carrying amount as at 31 December	33	46	49	50	82	96

Post-employment benefits

Prompted by the deterioration of the funding ratio in 2008, ABP introduced a recovery plan in 2009. At the start of each year ABP evaluates the progress of the recovery on the basis of the actual funding ratio at the end of the preceding year. The funding ratio as at year-end 2017 was 101.5% and the pension contribution rate in 2017 was 21.1% of pensionable salary. With effect from 1 January 2018, the contribution rate for the retirement and dependants' pension rises to 22.9%. The main reasons for the increase are the low interest rate and the fact that we are living longer.

Alliander's relative share in the ABP pension scheme based on numbers of participants is approximately 0.5%. The pension contributions payable for the multi-employer plans in 2018 are expected to total €73 million (of which an expected €54 million will be borne by the company).

In addition to the above multi-employer pension plans in the Netherlands, Alliander has two defined benefit plans relating to subsidiaries in Germany, although these are not of material importance. These plans are accounted for in accordance with the amended IAS 19. This means that, with effect from 2013, actuarial gains and losses and rereasurements are recognised directly. Because of the small amounts involved, however, this is not visible in the consolidated financial statements. The post-employment benefits provision totalled €2 million at the end of 2017 (2016: €2 million), made up as follows:

€ million	Current portion		Non-current portion		Total	
	2017	2016	2017	2016	2017	2016
Liability for pensions and post-employment healthcare insurance for retired employees	-	-	2	2	2	2
Actuarial value of obligations as at 31 December	-	-	2	2	2	2

Other long-term employee benefits

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

- jubilee benefits; this provision covers the jubilee benefits paid to employees after 10, 20, 30, 40 and 50 years of service and the payment on reaching retirement age;
- long-term sickness benefits; this benefit covers the obligation to continue paying all or part of an employee's salary during the first two years of sick leave;
- incapacity benefit; Alliander bears the risk for benefits payable under the Work and Income (Ability to Work) Act (WIA) - the relevant provision covers the obligations towards Alliander employees who become wholly or partially unfit for work; and
- unemployment benefits; Alliander is the risk-bearer within the meaning of the Unemployment Act(WW); if an Alliander employee becomes unemployed, the unemployment benefit is borne by Alliander for a period of between three months and 38 months, depending on the employee's employment history;

€ million	Current portion		Non-current portion		Total	
	2017	2016	2017	2016	2017	2016
Long-service benefits	3	2	31	30	34	32
Long-term sickness leave and disability benefits	5	5	7	8	12	13
Unemployment benefits	4	2	2	3	6	5
Other	-	-	-	1	-	1
Carrying amount as at 31 December	12	9	40	42	52	51

Termination/reorganisation benefits

This provision covers payments and/or supplements to benefits paid to employees whose employment contract has been or probably will be terminated. These benefits and supplements are based on the Social Plan operated by Alliander and individual arrangements. The Social Plan is periodically renegotiated and agreed. In 2017, an amount of €10 million was added to the reorganisation provision (2016: €19 million). The provision for termination payments/reorganisations totalled €12 million at the end of 2017 (2016: €18 million).

Movements in provisions for long-term employee benefits

The following table shows the movements in the provisions for post-employment benefits, other long-term employee benefits and the termination benefits/ restructuring provision.

Movements in provisions for employee benefits

€ million	Post-employment benefits	Other long-term employee benefits	Termination/reorganisation benefits	Total
Carrying amount as at 1 January 2016	1	51	18	70
Movements in 2016				
Released	-	-1	-8	-9
Added	-	12	19	31
Interest expense	-	1	-	1
Benefits paid	1	-12	-11	-22
Total	1	-	-	1
Carrying amount as at 31 December 2016	2	51	18	71
Movements in 2017				
Released	-	-	-4	-4
Added	-	12	10	22
Benefits paid	-	-11	-12	-23
Total	-	1	-6	-5
Carrying amount as at 31 December 2017	2	52	12	66

Assumptions

The main assumptions used in determining the provisions are given below:

	2017	2016
Mortality tables	generation 2016-2186 layer 2017	generation 2010-2060 layer 2016
Discount rates	-0.4% -1.26%	-0.01% -1.71%
Expected future salary increases	2.5%	2.5%
Expected increase in incapacity benefits	2.0%	2.0%

Short-term employee benefits

Short-term employee benefits relate to all obligations to employees, other than the current portion of long-term employee benefits, that are expected to be settled within 12 months after the balance sheet date. Short-term employee benefits include salaries still to be paid, accrued holiday entitlement, bonuses and other staff costs still to be paid, which at year-end 2017 amounted to €16 million (2016: €25 million). At the end of 2017, Alliander agreed with the Works Council and the unions that in future the variable Performance-Related Pay and Profit-Sharing scheme should be replaced by awarding a fixed end-of-year bonus of 5.94%. This change in the CLA relating to the industry has retroactive force from 1 January 2017. The end-of-year bonus is a percentage of the monthly salaries paid in the calendar year and is payable in December, in contrast to the previous scheme, under which the bonus was paid in April of the following year.

Note 16 Other provisions

€ million	Other provisions
Carrying amount as at 1 January 2016	3
Movements in 2016	
Added	2
Utilised	-
Total	2
Carrying amount as at 31 December 2016	5
Movements in 2017	
Added	2
Utilised	-
Total	2
Carrying amount as at 31 December 2017	7

Other provisions

The other provisions as at year-end 2017 amounted to €7 million (2016: €5 million) and related to loss-making contracts and a provision for soil remediation.

Note 17 Deferred tax

The deferred tax item is made up as follows:

Deferred tax assets

€ million	2017	2016
Differences in valuation of property, plant and equipment	213	227
Other	-8	-11
Carrying amount as at 31 December	205	216

This item is made up of the differences between the reported carrying amounts of the items of property, plant and equipment and other balance sheet items, including investments and provisions, and the corresponding tax bases.

Gross movement in deferred tax assets

€ million	Property, plant and equipment	Other	Total
Carrying amount as at 1 January 2016	259	-11	248
Movements in 2016			
Added directly via equity	-	2	2
Realised temporary differences	-13	-2	-15
New consolidations	-19	-	-19
Total	-32	-	-32
Carrying amount as at 31 December 2016	227	-11	216
Movements in 2017			
Added directly via equity	-	3	3
Realised temporary differences	-14	-	-14
Total	-14	3	-11
Carrying amount as at 31 December 2017	213	-8	205

The deferred tax assets of €213 million in respect of property, plant and equipment (2016: €227 million) are the result of differences between the carrying amounts in the financial statements and the tax bases. Alliander became liable to corporate income tax on 1 January 1998 and the item of deferred tax arose on that date. The carrying amounts of the property, plant and equipment agreed with the Dutch Tax & Customs Administration as at 1 January 1998 have depreciation periods extending ahead as far as 2030. Realisation of the temporary difference relating to these assets is therefore spread out over this period. In addition, the item Property, plant and equipment deferred tax refers to the general overhead surcharge that has been capitalised for tax purposes, the effects of implementing IFRS accounting policies in 2005 and the arbitrary amortisation tax break allowed in the past.

The decrease of €11 million in the amount of the deferred tax assets in 2017 has largely been recognised in the income statement (€14 million loss) and is partly accounted for by movements recognised directly in equity (€3 million gain).

The deferred tax liabilities as at year-end 2017 stood at €5 million (year-end 2016: €5 million). This item is accounted for by the net effect of tax loss carryforwards of the 450connect GmbH tax group (deferred tax asset of €3 million) and the difference between the reported carrying amount of licences and their corresponding tax base (deferred tax liability of €8 million). The tax loss carryforwards increased by €1 million in 2017, owing to recognition of the 2017 loss, but at the same time there was a decrease of €1 million, owing to a change in the recognition of losses in the period prior to year-end 2013.

There were no changes in the rates of corporate income tax in 2017. As at year-end 2017, there was an unrecognised deferred tax asset of €19 million. This relates to tax loss carryforwards from our activities in Germany and Belgium which in connection with the projected results in the medium term for the German and Belgian entities have not been recognised, apart from the losses reported by our entity 450connect GmbH.

Note 18 Trade and other payables

€ million	2017	2016
Trade payables	79	73
Amounts due to construction contract customers	5	5
Other payables	49	44
Carrying amount as at 31 December	133	122

The accruals (2017: €257 million; 2016: €251 million) are made up of surffrance tax payable (2017: €114 million; 2016: €114 million), invoices still to be received for costs such as subcontracted work (2017: €79 million; 2016: €84 million) and anticipated amounts in respect of network losses and energy transport costs (2017: €14 million; 2016: €11 million) along with other items.

Note 19 Leases

Finance lease receivables

The receivables in respect of finance leases as at year-end 2017 were as follows:

€ million	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
As at 31 December 2017				
Future minimum lease payments	-	1	3	4
Unearned finance income	-	-	-1	-1
Present value of finance lease receivables	-	1	2	3

The receivable relates to a heat transport connection. As at year-end 2016, Alliander had no receivables on finance leases.

Operating lease receivables

The total future minimum lease receivables from non-cancellable operating leases not shown on the face of the balance sheet are as follows:

€ million	2017	2016
Less than 1 year		24
Between 1 and 5 years	22	87
Over 5 years	73	72
Total as at 31 December	162	183

At 31 December 2017, the operating leases related mainly to rental of transformers and the subleasing of two district heating networks to N.V. Nuon Warmte, part of N.V. Nuon Energy.

Lease obligations

Finance lease liabilities

€ million	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
As at 31 December 2017				
Future minimum lease obligations	10	49	187	246
Future finance expense on finance leases	-11	-44	-41	-96
Present value of finance lease obligations	-1	5	146	150
As at 31 December 2016				
Future minimum lease obligations	11	44	235	290
Future finance expense on finance leases	-12	-51	-59	-122
Present value of finance lease obligations	-1	-7	176	168

Finance lease payables at year-end 2017 and year-end 2016 mainly related to an obligation in respect of two cross-border lease transactions (see note [3]). The movements in the finance lease payables in 2017 do not reflect cash flows but are made up of exchange differences totalling €18 million and other movements.

Operating lease liabilities

€ million	2017	2016
Less than 1 year		21
Between 1 and 5 years	28	47
Over 5 years	60	13
Total as at 31 December	153	81

Alliander has operating lease payables in respect of buildings, spaces, telecommunication interconnections and company cars.

The following table presents the costs for the year connected with operating leases.

Operating lease costs

€ million	2017	2016
Operating leases	23	26
Additional services	19	19
Total as at 31 December	42	45

The operating leases relate to the net amounts of minimum and contingent lease payments. The additional services relate to the services of maintenance, management, fuel, insurance and so on provided in connection with these contracts.

Note 20 Contingent assets and liabilities

Rights and obligations arising from operating leases

Please refer to note [19] to the consolidated financial statements for details of rights and obligations arising from operating leases.

Capital expenditure commitments

The outstanding capital expenditure commitments and other purchasing commitments at the end of the year were as follows:

Capital expenditure and other purchasing commitments

€ million	2017	2016
Capital expenditure commitments regarding property, plant and equipment	114	124
Other purchasing commitments	269	255
Total as at 31 December	383	379

Contingent liabilities

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

In January 2014, the Trade and Industry Appeals Tribunal (CBB) in a dispute with another network operator ruled on the definition of an electricity connection. It was concluded that certain links were no connections within the meaning of the Electricity Act 1998 and the network operator to these parties could not provide services. As of January 1, 2014, the Electricity Act 1998 has changed and these links are still under the legal definition of a connection. The Tribunal's judgment may have consequences for the network operators, including Liander. A number of claims were received by Alliander in 2016. Currently, they are not expected to result in any liabilities for Alliander.

Liander is involved in legal disputes with a number of municipal authorities relating to sufferance tax. Liander could potentially be reclaiming an amount of €22 million. However, given the uncertainties, these receivables have not been recognised in the balance sheet as at 31 December 2017.

Referring to the Electricity Act 1998 and the Gas Act, the Authority for Consumers & Markets (ACM) has raised questions concerning a number of new activities carried on by Alliander. These questions concern possible unfair advantages and in one specific situation of alleged energy supply, along with other matters. With regard to this situation, the activities concerned were accordingly transferred to an energy supplier at the end of 2015. The ACM has concluded that the activities did indeed fall within the scope of the law with respect to the specific situation in question. In 2016, the regulator ACM issued a further ruling on an enforcement request regarding some of Alliander's new activities, mainly Hoom, Exe and MPARE. The ACM concluded that these activities meet the legal frameworks and contribute to the management of energy networks. Consequently they contribute to the core duty of an increasingly sustainable energy supply with a reliable, affordable and accessible network. The parties concerned lodged appeals against the ACM's rulings in 2016. In 2017, the court upheld the decisions of the ACM, declaring the appeals inadmissible. The parties seeking enforcement then dropped further appeal.

As at year-end 2017, Alliander had issued parent company guarantees amounting to €45 million (2016: €54 million) and a parent company guarantee of €5.2 million (2016: €5.2 million) for the non-controlling interest Reddyn. Bank guarantees amounting to €0.4 million had been issued on Alliander's behalf as at year-end 2016 (2016: €1 million).

With respect to the Spaklerweg disposal, it has been agreed that the city authorities will have an option expiring on 30 June 2020 to acquire part of the site and the buildings for the sum of €13 million (to be paid in instalments of €6 million in 2025 and €7 million in 2028). If the option is exercised, conveyance of the property will take place in 2025 and Alliander will continue to have the use of the site until that date. The exercise of the option by the City of Amsterdam at some future date is not expected to affect profit or loss.

Alliander has taken out liability insurance in the form of a Directors and Officers policy covering the members of the Supervisory Board, the members of the Management Board, the operating company managers and other directors within the Alliander group. In addition to the cover provided by this liability insurance, the members of the Supervisory Board are also legally indemnified. As far as possible, the members of the Supervisory Board are also indemnified by Alliander subject to specific conditions and with strict limitations in respect of costs connected with legal proceedings brought under civil, penal or administrative law in which they could become involved by virtue of their membership of the Supervisory Board.

Alliander, together with its Dutch subsidiaries, forms a tax group for both corporate income tax and value added tax (VAT). Consequently, every legal entity forming part of the tax group bears joint and several liability for the tax liabilities of the legal entities included in the tax group. Alliander has also given a declaration of indemnity to its network operator under which its liability in this respect is restricted to the amount for which it itself would be liable if a tax group did not exist.

Convertible subordinated loans were contracted with the shareholders of Alliander in the past and relate to guarantees given on the sale of non-strategic interests. On expiry of these guarantees, the loans were released to income and shares in Alliander were issued in 2006. Some of the guarantees are not time-limited, however. A number of guarantees are, however, for an indefinite period; in the event that there are any subsequent claims on guarantees in the future, the shareholders concerned have a duty to surrender all or part of their shares.

In 2006, following the declaration of the nullity of a claim, a guarantee provision for the sale of associates was released to income and additional shares in Alliander were issued in 2007. The guarantees which have been given are for an indefinite period. It is therefore still possible for claims to be made on these guarantees in the future. Alliander can again also require the shareholders to surrender some or all of their shares.

The agreement between Alliander and Enexis on the exchange of regional energy distribution networks contains a number of indemnifying clauses covering such things as sufferance tax and consumer unit/meter boxes. Furthermore Alliander sold off a number of non-controlling interests in 2017, giving a number of guarantees in connection with these transactions.

Note 21 Revenue

€ million	2017	2016
Electricity transport and connection services	1,062	1,012
Gas transport and connection services	381	313
Metering services	120	120
Other revenue	134	139
Total	1,697	1,584

Revenue for 2017 was up by €113 million compared with 2016, at €1,697 million. This increase mainly resulted from the growth in the number of electricity connections (€14 million) and increases in the transport and connection charges for gas and electricity in the regulated market (€105 million).

Note 22 Other income

€ million	2017	2016
Amortisation of construction contributions	71	66
Operating contributions and other income	72	73
Total	143	139

Other income in 2017 came in at €143 million (2016: €139 million). Other income mainly relates to the amortisation of connection contributions from our customers (€ 71 million). The rest is made up of sundry other income, including compensation received for losses, rents and book profits on the sale of assets plus other income.

Note 23 Purchase costs and costs of subcontracted work

€ million	2017	2016
Grid losses	58	61
Transport capacity and restrictions	188	175
Billing and payment collection	10	9
Contractors, materials and other	146	157
Total	402	402

The purchase costs and costs of subcontracted work, at €402 million, were the same overall as in the preceding year. On the one hand, there was an increase in the costs of transport capacity and restrictions amounting to €13 million, due to higher charges and an increase in volumes, while, on the other hand, the costs incurred for network losses were down by €3 million, mainly owing to lower energy costs, and there was a reduction in the costs of hiring contractors and of subcontracted work of €12 million, largely as a result of the capacity challenges.

Note 24 Employee benefit expense

€ million	2017	2016
Salaries	357	342
Social security premiums	43	41
Pension costs:		
- contributions paid to multi-employer plans that are accounted for as defined-contribution plans	45	40
Termination benefit expenses	6	11
Other long-term employee benefit expenses	12	12
	18	23
Other staff costs	22	16
Total	485	462

The staff costs relating to pensions, reorganisations and other long-term employee benefits were as follows:

Employee benefit expense for pensions, reorganisation and other long-term employee benefits

€ million	Multi-employer plans	Termination/reorganisation benefits	Other long-term employee benefits	Total
2016				
Contributions paid to multi-employer plans	40	-	-	40
Added to provision	-	19	12	31
Released from provision	-	-8	-1	-9
Interest expense	-	-	1	1
Total 2016	40	11	12	63
2017				
Contributions paid to multi-employer plans	45	-	-	45
Added to provision	-	10	12	22
Released from provision	-	-4	-	-4
Interest expense	-	-	-	-
Total 2017	45	6	12	63

A note on the reorganisation costs is included in note [15] on provisions for employee benefits.

For further details of the other long-term employee benefits, reference is made to the disclosures in note [15]. The external staff costs amounted to €151 million (2016: €123 million) and related to contract staff for specific projects and to fill vacancies.

The number of staff employed by Alliander, based on a 38-hour working week (FTEs), is shown in the table below:

Number of permanent staff (FTEs)

	2017	2016
Employed in continuing operations		
-Average during the year	5,719	5,621
-As at 31 December	5,755	5,682
-Number of permanent staff outside the Netherlands	197	179

WNT

On 1 January 2013, the Public and Semi-Public Sector Executives' Pay (Standards) Act (Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector / WNT) entered into force. This act contains rules for the maximum remuneration for senior executives in the public and semi-public sectors. The WNT limit is set annually by ministerial order.

WNT reporting

The WNT is applicable to network operator Liander N.V., which is required to report on the remuneration of senior executives. In addition, transparency is requested on the remuneration of other internal employees exceeding a set limit in the reporting year. The separate annual report of the network operator, which is to be published in the second quarter of 2018, will contain disclosures on the WNT requirements applicable to the network operator.

Remuneration of the Management Board and the Supervisory Board

The Remuneration Report sets out the remuneration policy, its implementation and the remuneration of the Management Board and the Supervisory Board (key management). These three sections can be found in article 'Corporate governance' of the 2017 Annual Report. The remuneration of the members of the Management Board is disclosed in the following table.

Total gross annual remuneration chargeable to the financial year

€ thousand	Fixed salary		Long-term variable remuneration		Total	
	2017	2016	2017	2016 ¹	2017	2016
I.D. Thijssen	210	208	-	-	210	208
M.R. van Lieshout	290	237	-	29	290	266
P.C. Molengraaf ²	172	252	-	31	172	283
Total	672	697	-	60	672	757

¹ This includes the difference between the accrued entitlement as at year-end 2015 and the actual payment in 2016. For Mr Molengraaf, this is an amount of €7,000 and for Mr Van Lieshout €6,000.

² Retired 31 August 2017.

The fixed salary concerns the actual payment per annum, without amounts accrued for other remuneration elements. The short-term variable remuneration element was discontinued at the end of 2015. The long-term variable remuneration concerns a payment that has been earned over a period of three years. As at year-end 2016, the long-term variable remuneration figure concerns the period 2014-2016. The award of a long-term variable remuneration element has now also been discontinued, with the long-term variable remuneration for the period 2014-2016 being the last award and payment to be made.

The partial incorporation of the short-term variable remuneration into the salary will start on 1 January 2017 for Messrs Molengraaf and Van Lieshout. The variable remuneration system was not applicable to Ms Thijssen.

For Ms Thijssen, the contractual increase in her salary in 2016 was overlooked in error. This situation was corrected in 2017 with retroactive effect on her salary.

Settlement of contract obligations

On the departure of Mr Molengraaf on 31 August 2017, the Supervisory Board acted in accordance with the contractually agreed arrangements with Mr Molengraaf. As a consequence, Mr Molengraaf received a payment of €517,000.

Pension contributions

€ thousand	2017	2016
I.D. Thijssen	19	17
M.R. van Lieshout	22	18
P.C. Molengraaf	12	18
Total	53	53

¹ Retired 31 August 2017.

Social security charges and other remuneration elements

€ thousand	2017	2016
I.D. Thijssen	12	12
M.R. van Lieshout	26	25
P.C. Molengraaf	18	26
Total	56	63

1 Retired 31 August 2017.

In addition to the normal social security charges and contributions applicable to the company, the members of the Management Board have a right to an employer's contribution towards the group health insurance premium, premiums connected with the personalised package of secondary conditions of employment (Dutch acronym: PBA), an expense allowance and the use of a company car.

Remuneration of the Supervisory Board

€ thousand	2017	2016
ms. A. Jorritsma-Lebbink, Chairman ¹	27.2	13.4
ms. A.P.M. van der Veer-Vergeer	18.1	21.8
ms. J.G. van der Linde	18.1	17.8
B. Roetert	18.1	17.8
G.L.M. Hamers ²	18.1	13.1
E.M. d'Hondt ³	-	13.4
J.C. van Winkelen ⁴	-	4.8
Total	99.6	102.1

1 Ms Jorritsma was appointed with effect from 1 July 2016.

2 Mr Hamers was appointed with effect from 7 April 2016.

3 Mr d'Hondt retired on 30 June 2016.

4 Mr Van Winkelen retired on 7 April 2016.

The differences in remuneration are connected with i) positions held, ii) tenure in those positions, iii) transitional entitlements under the WNT or a combination of these things. Transitional entitlements under the WNT ceased to be applicable in the course of 2016 on the reappointment of a Supervisory Board member.

Note 25 Other operating expenses

€ million	2017	2016
Additions / releases to provisions	1	4
Premises and transport	26	13
Rent and leases	41	42
Corporate staff and ICT	67	65
Sufferance tax and other tax	143	154
Other	51	55
Total	329	333

Other operating expenses amounted to €329 million in 2017 compared with €333 million in 2016. The drop of €4 million was mainly due to the decline in sufferance taxes (by €11 million).

Sufferance tax and other tax charges in 2017 amounted to €143 million compared with €154 million in 2016. The reduction in the costs, by €11 million, is the effect of legislation relating to the phasing-out of sufferance tax. The new law prohibits any more municipal authorities from introducing sufferance taxes.

For further disclosures relating to the costs of operating leases, reference is made to note [19].

The auditors' fees were as follows:

Auditors' fees

€ million	2017	2016
Description of services:		
Audit of the financial statements:	0.8	0.8
Other assurance services	0.2	0.2
Total	1.0	1.0

The above fees relate to the activities carried out by the accountancy firms and external auditors in connection with the parent company and the companies included in the consolidation, as referred to in Section 1, subsection 1, of the Audit Firms Supervision Act (WTA), and the fees charged by the entire network of which the accountancy firm is part. These fees relate to the audit of the financial statements for 2016 and 2017.

Note 26 Depreciation/amortisation and impairment of non-current assets

€ million	Land and buildings	Networks	Other	Total
2017				
Depreciation	8	245	112	365
Divestments	-	16	15	31
Impairments	-	-	-	-
Total 2017	8	261	127	396
2016				
Depreciation	9	238	110	357
Divestments	-	14	18	32
Impairments	-	5	1	6
Total 2016	9	257	129	395

The divestments include the accelerated depreciation of decommissioned assets.

Note 27 Finance income

€ million	2017	2016
Interest income on loans and deposits	1	-
Fair value movements swaps	-	1
Other finance income	11	12
Currency translation differences	55	5
Total	67	18

The other finance income largely concerns the available-for-sale financial assets relating to the cross-border lease contracts (note [6]).

The currency translation differences result from the effect of the movements in the US dollar exchange rates against the euro on the finance lease obligations (note [19]) and the Euro Commercial Paper issued in US dollars.

Note 28 Finance expense

€ million	2017	2016
Loans from third parties	-48	-51
Currency translation differences	-50	-5
Other finance expense	-12	-16
Total	-110	-72

The currency translation differences result from the effect of the movements in the US dollar exchange rates against the euro on the available-for-sale financial assets (note [6]) and the hedging of Euro Commercial Paper issued in US dollars.

The other finance expenses mainly related to the finance lease obligations [note 19]. Also included in the other finance expenses are the costs associated with credit facilities.

Note 29 Tax

€ million	2017	2016
Current tax expense	-54	-28
Movement in deferred tax	-14	-14
Total	-68	-42

The recognised tax expense of €54 million is made up of tax charges of €56 million for 2017 and an adjustment of €2 million (gain) relating to prior years. This tax recovery largely relates to the effect on corporate income tax of various investment incentives in respect of investments in earlier years for which final approval was received in 2017.

The corporate income tax charge on the taxable profit of the Alliander N.V. tax group for 2017 amounts to €51 million. This is the balance of the calculated corporate income tax on the profit for 2017 (€55 million) and the calculated corporate income tax on movements in balance sheet items recognised directly in equity (€4 million tax credit).

The movement in deferred tax (€14 million down) relates to the movement in deferred tax assets.

The table below provides a reconciliation between the corporate income tax rate in the Netherlands and the effective tax rate:

Reconciliation of effective corporate income tax rate

%	2017	2016
Enacted corporate income tax rate in the Netherlands	25.0	25.0
Impact of:		
Losses not accounted for	1.4	1.9
Other permanent differences	-0.7	0.6
Effective corporate income tax rate	25.7	27.5

The effective tax rate is the tax burden expressed as a percentage of the profit before tax excluding the profits after tax from associates and joint ventures. The effective tax rate in 2017 amounted to 25.7% (2016: 27.5%). The difference compared with the standard rate of tax of 25% is the combined effect of not recognising the losses of international operations (having the effect of increasing the tax rate by 1.4%-points) and other permanent differences (downward effect of 0.7%-points). These other permanent differences mainly concern the effect on corporate income tax of tax breaks designed to encourage investment.

Note 30 Notes to the consolidated cash flow statement

Cash flow from operating activities

The cash flow from operating activities in 2017 amounted to €455 million compared with €376 million in 2016. The increase of €79 million compared with 2016 is largely accounted for by a rise in the operating profit, partly as a consequence of the increase in the regulated tariffs. In addition, the amount of corporate income tax paid in 2017 was €32 million lower (owing to assessments received for prior years and paid in 2016), with interest payments also down (€18 million).

Cash flow from investing activities

The cash outflow from investing activities in 2017 amounted to €549 million, which is €317 million higher than in 2016.

The overall increase in the cash outflow in 2017, amounting to €317 million, is explained by the cash inflow in 2016 as a result of the exchange of service areas (€359 million). This was partly offset by lower capital expenditure (€666 million in 2017 compared with €680 in 2016). Also, the disposal of non-controlling interests in 2017 generated an inward cash flow of €14 million compared with a cash outflow of €5 million in 2016. The contributions towards capital projects received from third parties in 2017 amounted to €96 million, which is slightly lower than in 2016 (€99 million).

Cash flow from financing activities

The cash flow from financing activities in 2017 amounted to an inflow of €148 million (2016: €185 million outflow). The inward cash flow in 2017 results from the ECP financing that was raised. The cash outflow in 2016 was partly due to the repayment of €100 million of EMTN debt.

Note 31 Licences

Liander Infra West N.V. and Liander Infra Oost N.V., both wholly-owned subsidiaries of Liander, own networks for the transportation of electricity and gas in the Netherlands. In accordance with the Electricity Act 1998 (E-Act) and the Gas Act (G-Act), these subsidiaries have appointed Liander as network operator for their gas and electricity networks for a ten-year period (expiry date: 2 May 2024). Liander N.V. executes the tasks incumbent on it under the E-Act and the G-Act. On 31 December 2016, Liander Infra Oost N.V. and Liander Infra West N.V. were merged to create Liander Infra N.V.

Note 32 Related parties

As holder of 45% of the shares in Alliander, the Province of Gelderland has significant influence over the company, qualifying the province as a related party. At year-end 2017, the remaining shares were held by 78 shareholders, none of which is a related party.

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

The following transactions were entered into with related parties for the purchase and sale of goods and services:

Related party transactions

€ million	2017	2016
Sales of goods and services		
Associates	-	-
Joint ventures	93	80
Total	93	80
Purchase of goods and services		
Associates	12	9
Joint ventures	97	106
Total	109	115

The transactions involving the Province of Gelderland are not included in these disclosures, owing to the exemption applicable in the case of related parties that are public authorities (IAS24, paragraph 25). There were no material transactions with the Province of Gelderland. There were no material transactions with individuals who qualify as related parties. For disclosures relating to the remuneration of the members of the Management Board, who do qualify as related parties, reference is made to [note 24].

Outstanding accounts with related parties connected with purchase and sale transactions involving related parties are immaterial. As at year-end 2017, Alliander had assets of €18 million (2016: €17 million) in respect of loans granted to related parties and an asset of €25 million in respect of agreed borrowings on current accounts with related parties (2016: €9 million liability).

Note 33 Assets and liabilities held for sale and discontinued operations

There were no assets and liabilities held for sale or discontinued operations in 2017. As at year-end 2016, there were no assets and liabilities held for sale either. The results from discontinued operations in 2016, amounting to €176 million, related entirely to the disposal of Endinet.

Note 34 Information on risks and financial instruments

General

The following financial risks can be identified: market risk, credit risk and liquidity risk. Market risk is defined as the risk of loss due to an adverse change in market prices. Alliander's main exposure is to commodity price risk, currency risk and interest rate risk. The credit risk is the risk arising in connection with the default of counterparties to trading and sales transactions. The liquidity risk is the risk of the company being unable to meet its payment obligations as they fall due.

This note provides information on these financial risks to which Alliander is exposed, the objectives and policy for managing risks arising from financial instruments as well as the management of capital. Further quantitative information is provided in the various notes in the consolidated financial statements.

Market risk

Alliander is exposed to the following potential market risks:

- commodity price risk: the risk that the value of a financial instrument will fluctuate because of changes in commodity prices; this mainly affects the cost associated with network losses;
- currency risk: the risk that the value of a financial instrument will fluctuate because of changes in exchange rates;
- interest rate risk: the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Alliander hedges market risks through the purchase and sale of derivatives and attempts to minimise income statement volatility as far as possible through the application of hedge accounting. All transactions are carried out within the guidelines approved by the Management Board.

Commodity price risk

As regards the cost of network losses, Alliander is sensitive to the effect of market fluctuations in the price of various energy commodities, including but not limited to electricity and green certificates (renewable energy certificates - RECs).

Currency risk

General

Alliander is exposed to currency risk on purchases, cash and cash equivalents, borrowings and other balance sheet positions denominated in a currency other than the euro. The currency risks concern transaction risks, i.e. risks relating to future cash flows in foreign currencies and balance sheet positions in foreign currencies. Currency risks as at 31 December 2017 mainly relate to balance sheet positions in USD. These risks are hedged as far as possible. Subsidiaries report currency positions and risks to Alliander's Treasury Department. These positions and risks are principally hedged back-to-back with external counterparties through spot and forward exchange contracts.

Exposure to currency risk and sensitivity analysis

Alliander's exposure to currency risk based on nominal value is presented in the table below. This table shows the pre-tax effect that a possible increase or decrease in the value of foreign currencies relative to the Euro would have, assuming all other circumstances remained unchanged, on Alliander's finance income and expense and equity, taking into account derivatives concluded to hedge the currency risk. The effects on equity and results are calculated at year-end exchange rates. Alliander operates mainly in the Netherlands and to a small extent in Germany and so has no currency risk on its normal operations. Non-operational risks of this nature as at year-end 2017 related to the assets and liabilities connected with two cross-border lease contracts disclosed in the financial statements.

Liander recognises USD investments and liabilities for two CBL contracts in the balance sheet. The table shows that currency risks do not directly affect the equity position. All currency translation gains and losses are recognised through the income statement.

Finance was raised in 2017 under the Euro Commercial Paper Programme, denominated in US Dollars (USD). This position, too, is hedged by means of forward currency contracts. The currency translation differences are recognised through profit or loss and do not affect the equity position.

Currency risk sensitivity analysis

€ million	Position	Results		Equity	
		Decrease by 10% relative to the euro	Increase by 10% relative to the euro	Decrease by 10% relative to the euro	Increase by 10% relative to the euro
As at 31 December 2017					
Exposure in USD	150	-14	11	-	-
Hedged position in USD	-150	14	-11	-	-
Sensitivity of cash flow in USD (net)	-	-	-	-	-

The following important exchange rates were applicable as at the balance sheet date:

Exchange rates

	2017	2016
EUR		
USD	1.202	1.055

Interest rate risk

General

The following table provides information on the extent to which Alliander is exposed to changes in interest rates on financial instruments and shows the effective interest rate at the balance sheet date and the maturity date or, if earlier, the contractual interest repricing date.

Alliander had no interest rate swaps outstanding as at year-end 2017 or 2016.

Maturity date or earlier contractual interest repricing date

€ million	Effective interest rate	Variable / Fixed	Carrying amounts			Total
			Less than 1 year	Between 1 and 5 years	Over 5 years	
As at 31 December 2017						
Assets						
Available-for-sale financial assets and other financial	5.3%	Fixed / variable	10	40	143	193
Loans and receivables			3	7	32	42
Cash and cash equivalents		Variable	101	-	-	101
Total assets			114	47	175	336
Loans received						
Subordinated loans	8.6%	Fixed	-6	-29	-41	-76
Private and green loans	1.3%	Fixed	-	-2	-85	-87
Euro Medium Term Notes	2.6%	Fixed	-	-698	-697	-1,395
Euro Commercial Paper	0.7%	Fixed	-225	-	-	-225
Other		Variable	-	-	-1	-1
Finance lease liabilities	6.5%	Fixed	1	-5	-146	-150
Total liabilities			-230	-734	-970	-1,934
As at 31 December 2016						
Assets						
Available-for-sale financial assets and other financial	4.7%	Fixed / variable	15	-	224	239
Loans and receivables			3	10	25	38
Cash and cash equivalents		Variable	48	-	-	48
Total assets			66	10	249	325
Loans received						
Subordinated loans	8.6%	Fixed	-5	-26	-50	-81
Private and green loans	1.0%	Fixed	-1	-2	-10	-13
Euro Medium Term Notes	2.6%	Fixed	-	-299	-1,095	-1,394
Euro Commercial Paper	0.0%	Fixed	-75	-	-	-75
Other		Variable	-	-	-1	-1
Finance lease liabilities	6.3%	Fixed	1	7	-176	-168
Total liabilities			-80	-320	-1,332	-1,732

Sensitivity analysis in relation to fixed-rate assets and liabilities

Alliander does not have any fixed-rate financial assets or liabilities carried at fair value through profit or loss.

Sensitivity analysis in relation to cash flows for variable-rate assets and liabilities

A change of 100 basis points in interest rates as at 31 December 2017 would, assuming all other circumstances remained unchanged, have a pre-tax effect on Alliander's equity and income on an annual basis (finance income and expense) as shown in the following table.

Interest rate risk sensitivity analysis

€ million	Position	Income		Equity	
		Decrease by 100 basis points	Increase by 100 basis points	Decrease by 100 basis points	Increase by 100 basis points
As at 31 December 2017					
Variable-rate instruments	-	-	-	-	-
Sensitivity of cash flow (net)					
	-	-	-	-	-
As at 31 December 2016					
Variable-rate instruments	15	-	-	-	-
Sensitivity of cash flow (net)					
	15	-	-	-	-

Hedging transactions

Fair value hedging

In order to provide a complete or partial hedge against risks of fluctuations in the fair value of financial assets and/or liabilities as well as commitments entered into, Alliander made use of derivative financial instruments in preceding years.

Credit risk

General

Credit risk is the risk of a loss being incurred because a counterparty is unable or unwilling to meet its obligations. Credit analysis and management are applied throughout the organisation, with the degree of review undertaken varying depending on the magnitude of the credit risk in a transaction.

Surpluses of cash and cash equivalents are placed in the money and capital markets on market terms and conditions with institutions satisfying a list of criteria drawn up by the Management Board, making them approved counterparties, up to the maximum limit set for the party in question. In addition, minimum requirements have been set for the credit ratings of such investments set by credit rating agencies. Changes in investments made by Alliander relating to the cross-border lease contracts require the individual approval of the Management Board. These investments were made for long terms, with the intention of generating sufficient returns to meet future lease obligations. The portfolio of investments on which Alliander is exposed to credit risks consists mainly of deposits and securities. Credit risk is managed through an established credit policy, regular monitoring of credit exposures and application of risk mitigation tools.

Credit quality

Treasury

The creditworthiness of financial institutions from which Alliander has a receivable is monitored using specific credit analyses, CDS data and credit ratings. The greater part of the cash and cash equivalents, as well as cross-border lease investments and deposits and interest rate and currency derivatives, is placed or invested with parties with a credit rating of A or higher. 70% of the cash and cash equivalents (2016: 88%) is placed with parties with an AA rating or higher.

Sales

Alliander is exposed to credit risk; this is the risk of non-payment by customers for services provided. The company has procedures to limit credit exposure to counterparties and to ensure that outstanding positions are covered by collateral, for example, in the form of bank guarantees.

Maximum credit risk

The maximum credit risk is the carrying amount of each financial asset, including derivative financial instruments. The maximum credit risk that Alliander is exposed to in respect of the cross-border lease transactions is \$2.8 billion (2016: \$2.7 billion). The carrying amount of the associated available-for-sale financial assets included in Alliander's balance sheet amounts to €193 million (2016: €224 million).

Overdue instalments

Receivables which are past due, but for which no provision has been recognised, are without exception trade receivables from normal sales. The provision for bad debts also exclusively concerns trade receivables from normal sales. The ageing analysis of trade receivables was as follows on the balance sheet date (gross amounts):

Ageing analysis of trade receivables

€ million	2017	2016
Not overdue	34	34
0-30 days	25	15
31-90 days	10	6
91-360 days	5	8
> 360 days	8	8
Carrying amount as at 31 December	82	71

The movements in the provision for bad debts relating to trade receivables were as follows:

Movements in the provision for bad debt

€ million	2017	2016
Carrying amount as at 1 January	12	9
Utilised (trade receivables written off)	-2	-1
Released from / added to allowance account charged to income	-	4
Carrying amount as at 31 December	10	12

The major part of the provision for bad debts is calculated using a graduated scale based on historical figures. The remainder is based on an assessment of individual accounts. The fair value of collateral obtained relating to overdue accounts and bad debts written off was nil (2016: nil).

The other receivables and the prepayments and accrued income do not contain any accounts older than one year.

Liquidity risk

Liquidity risk is the risk that Alliander is unable to obtain the financial resources required to meet its financial obligations on time. In this connection, Alliander regularly assesses the expected cash flows over a period of several years. These cash flows include operating cash flows, dividends, interest payments and debt repayments, replacement capital expenditure and the effects of a change in Alliander's creditworthiness. The aim is to have sufficient funds available at all times to provide the required liquidity. Liquidity and capital requirement planning is performed with a four-year horizon as a minimum. As at year-end 2017 Alliander had a committed credit facility of €600 million (up to 28 July 2022). This facility can be used for general operating purposes, working capital financing or debt refinancing. In addition to this credit facility, which was not drawn on as at year-end 2017, Alliander has an ECP programme totalling €1.5 billion under which an amount of €0.225 billion was outstanding as at year-end (2016: €0.075 billion) and an EMTN programme of €3 billion under which an amount of €1.4 billion was outstanding as at 31 December 2017 (2016: €1.4 billion). To provide information on liquidity risk, the following table shows the contractual terms of the financial obligations (translated at the balance sheet rate), including interest payments.

The liquidity risk arising in connection with possible margin calls related to foreign currency and interest rate management transactions and commodity contracts intended for own use is closely monitored and limited by ensuring diversity in the number of counterparties with which transactions are entered into as well as ensuring that appropriate thresholds and other terms and conditions are included in ISDAs (International Swaps and Derivatives Association) and CSAs (Credit Support Annexes). In 2017, as in the preceding year, Alliander did not receive any margin call requests.

Liquidity risk 2017 and 2016

€ million	Carrying amount	Contractual cash flows			Total
		Less than 1 year	1 - 5 years	Over 5 years	
As at 31 December 2017					
Loans received					
Principal amounts	-1,784	-231	-731	-789	-1,751
Interest	-	-47	-129	-288	-464
Finance lease liabilities	-150	-10	-49	-187	-246
Accounts payable	-132	-132	-	-	-132
Other payables	-368	-368	-	-	-368
Off balance sheet commitments					
Operating lease liabilities	-	-28	-60	-65	-153
Total	-2,434	-816	-969	-1,329	-3,114
As at 31 December 2016					
Loans received					
Principal amounts	-1,564	-81	-328	-1,162	-1,571
Interest	-	-44	-146	-305	-495
Finance lease liabilities	-168	-11	-44	-235	-290
Accounts payable	-122	-122	-	-	-122
Other payables	-330	-329	-	-1	-330
Off balance sheet commitments					
Operating lease liabilities	-	-21	-47	-13	-81
Total	-2,184	-608	-565	-1,716	-2,889

Measurement of fair value

The following table lists the financial instruments measured at fair value in descending order of the fair value hierarchy. According to this hierarchy, the input data levels for measuring fair value are defined as follows:

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

Fair value hierarchy

€ million	31 December 2017				31 December 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Available-for-sale financial assets	-	193	-	193	-	224	-	224
Current derivatives	-	-	-	-	-	-	-	-
Total assets	-	193	-	193	-	224	-	224
Liabilities								
Current derivatives	-	2	-	2	-	-	-	-
Total Liabilities	-	2	-	2	-	-	-	-

The hierarchical analysis of the instruments is arrived at as far as possible on the basis of the availability of quoted prices on active markets or other observable inputs. Changes are made only as necessary owing to changes in the availability of the relevant inputs. No such changes were made during the year and there were therefore no transfers from one level of the fair value hierarchy to another.

Methods used for level 2 fair value measurement

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.

Fair value of other financial instruments

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

Fair value of financial assets and liabilities measured at amortised costs

€ million	Note	31 December 2017		31 December 2016	
		Fair value	Level	Fair value	Level
Non-current assets					
Other financial assets	7	41	2	45	2
Liabilities					
Non-current liabilities					
Finance lease liabilities	19	-200	2	-232	2
Interest-bearing debt:					
Euro Medium Term Notes	13	-1,531	1	-1,564	1
Other interest-bearing debt	13	-173	2	-116	2
Total non-current liabilities		-1,904		-1,912	
Short-term liabilities					
Interest-bearing debt:					
Euro Commercial Paper	13	-225	2	-75	2
Other interest-bearing debt	13	-11	2	-13	2
Total short-term liabilities		-236		-88	
Total liabilities		-2,140		-2,000	

Measurement of fair value

The fair value of these instruments is measured as follows:

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

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

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

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

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

Financial policy

Alliander's financial policy, which is part of its general policy and strategy, is to obtain an adequate return for shareholders and to protect the interests of bondholders and other providers of capital, while maintaining the flexibility to grow and invest in the business. As part of Alliander's financial framework, the subordinated perpetual bond loan issued in 2013 is treated as 50% equity and 50% borrowed capital. This is contrary to IFRS, under which the subordinated perpetual bond loan is considered to be 100% equity.

Finance income and expense

The table below shows the income and expenses in respect of financial instruments recognised in the income statement:

Effect of financial instruments on income statement

€ million	2017	2016
Net result on derivatives held for trading:		
Fair value changes in currency instruments	-30	-
Fair value changes interest rate derivatives and options	-	1
Net result on available-for-sale financial assets	-20	5
Net result on financial liabilities at amortised cost:		
Interest charges on financial liabilities at amortised cost	-59	-62
Interest gains on cash equivalents, loans granted, trade receivables, other receivables and deposits	12	12
Currency translation differences	55	-5
Fees paid and received other than for the calculation of the effective interest rate	-1	-5
Net changes in fair value of cash flow hedges transferred from equity	-	-
Net finance income and expense	-43	-54
Impairments of trade receivables	-	-4
Fair value changes CDS	-	-
Other operating expenses	-	-4

Note 35 Assumptions and estimates used in the financial statements (critical accounting policies)

Alliander prepares its financial statements in accordance with International Financial Reporting Standards that have been endorsed for use in the European Union by the European Commission. The preparation of financial statements and the measurement of items in the financial statements require the use of estimates and assumptions. These are mainly based on past experience and Alliander's management's best estimate of the specific circumstances that are, in the opinion of management, applicable in the given situation.

The assumptions and estimates used in the financial statements often relate to future developments. As a result, the actual outcome may differ significantly from the current measurement of a number of items in the financial statements. Consequently, the estimates and assumptions used may have a significant impact on equity and the results. The estimates and assumptions used are tested regularly and adjusted if necessary. Alliander is developing a number of new activities within the framework of its strategy. Due to the start-up nature of these activities inherent uncertainties are attached to their valuation. This section sets out an analysis of the main areas where the measurement of assets, liabilities and the results is affected by the estimates and assumptions used.

Determination of the provision for employee benefits

The provision for post-employment benefits and other long-term employee benefits is determined on an actuarial basis, using assumptions on future salary levels, disability benefits (WAO/WIA), health insurance premiums, statistical assumptions on mortality rates, employee turnover and probability of disability. These assumptions, together with the discount rate used, influence the carrying amount of the provision for employee benefits and, consequently, the results. An increase in the discount rate of 1 percentage point, for example, has the effect of reducing the necessary carrying amount of the provision by €3 million.

Useful lives, residual values and impairment of property, plant and equipment

The measurement of the carrying amount of property, plant and equipment uses estimates regarding depreciation rates derived from the expected technical and economic lives of the assets concerned, and estimates of their residual value. Technological developments, altered market circumstances and changes in the actual usage of the items of property, plant and equipment involved may lead to changes in the expected technical and economic lives and the estimated residual value of the assets.

These factors may also trigger recognition of impairment. In measuring the extent of the impairment, estimates are made of the fair value less costs to sell and the value in use. The fair value less costs to sell is derived from assumptions on the possible selling price of a particular item of property, plant and equipment. The actual sales proceeds in the case of a disposal may differ from the estimates used. The value in use is based on the present value of the expected future cash flows, which are derived from the business plans for the coming years relating to the assets concerned. Adverse developments affecting customers which could lead to the recognition of an impairment, such as court protection from creditors or bankruptcy/ insolvency, are also taken into account. It is possible that Alliander may be forced to recognise additional impairments in the future as a result of changes in market or other circumstances.

Impairment of goodwill and other assets

Goodwill is not amortised but impairment tests must be performed annually in order to ascertain whether the value of the goodwill has been impaired. Previously recognised impairments of goodwill are not reversed in future years if it is found that the impairment ceases to apply. Other assets are tested if events or changes have occurred that trigger an impairment test. The impairment tests use estimates and assumptions of the fair value less cost to sell and the value in use. The estimate of the fair value less costs to sell is derived from information on quoted prices on regulated markets and other market prices, recent transactions in comparable companies and bids and offers received. Actual proceeds and estimated costs to sell may differ from the estimates. Value in use is estimated using the present value of the expected future cash flows of the subsidiaries and associates involved. Actual cash flows may deviate from the cash flows in the business plans. The discount rates used also affect the ultimate value in use. It is possible that Alliander may be forced to recognise additional impairments in the future as a result of changes in market or other circumstances.

Measurement of trade and other receivables

Alliander regularly assesses the credit risk on its receivables, based on experience as well as developments affecting specific accounts. Impairment losses are recognised on account balances where indicated by this assessment. The actual situation may turn out to be different from the assumptions used in identifying impairment.

Provisions

A characteristic of provisions is that the obligations are spread over several years and management has to make estimates and assumptions at the balance sheet date on the probability that an obligation will arise and the magnitude of the amount that will have to be paid. Future developments, such as changes in market circumstances, changes in legislation and court rulings, may cause the actual obligation to differ from the provision. In addition, Alliander is involved in a number of legal proceedings. Management assesses each individual case and decides whether a provision is necessary, based on the facts. This assessment includes the probability that a claim will be successful and the amount that is likely to be paid.

Network losses; allocation and reconciliation

The allocation process serves to determine estimates of the quantities of electricity and gas supplied and the associated network losses on a daily basis, particularly where standard annual consumption patterns are used for the consumer and SME market. These estimates are reviewed regularly, and quantities allocated to customers are adjusted for actual quantities ascertained through meter readings as part of this process (reconciliation). The legal requirements on reconciliation prescribe settlement within 21 months after the end of the month of supply. The expected results of reconciliation have been estimated and recognised in the financial statements as accurately as possible, but the final settlement may affect future results.

Tax

When preparing the financial statements, Alliander devotes considerable attention to assessing all significant tax risks and the current tax position is reflected in the financial statements to the best of its knowledge. Changing insights, for example as a result of final tax assessments for previous years, may lead to additional tax expense or income. New tax risks may also arise. In the measurement of deferred tax assets, particularly those relating to the differences between the carrying amount in the financial statements and the valuation for tax purposes of property, plant and equipment, assumptions are made on the extent to which such tax assets can be realised, and at what point in time. This is based in part on business plans. In addition, assumptions on the temporary and permanent differences between measurement for financial reporting purposes and for tax purposes are used in preparing the financial statements. The actual situation may differ from the assumptions used in determining deferred tax positions, due to differences of opinion, changes in tax rules and so on.

Other

The assumptions with respect to risks and financial instruments are described in note [34].

Note 36 Events after balance sheet date

Issue and repurchase of perpetual bonds

On 29 January 2018, Alliander announced the intention to issue a new subordinated perpetual bond loan. At the same time, an offer was made for all the outstanding bonds of the €500 million perpetual bond loan issued in 2013, conditional upon the successful issue of the new loan. Subsequently, on 30 January, €500 million in new subordinated perpetual bonds was successfully issued at a coupon rate of 1.625% and an issue price of 99.144%. By the offer closing date of 5 February, applications were found to have been received from investors for repurchase by Alliander of bonds totalling approximately €413 million from the 2013 issue. The remaining amount of approximately €87 million in bonds that are still outstanding will be redeemed under the terms of the loan on 27 November 2018 at 100% of the nominal value by exercising the first right of redemption. The carrying amount of the hybrid instrument as at 31 December 2017 was €496 million. As a result of this transaction, 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.

Company financial statements

Company balance sheet (as at 31 December, before appropriation of profit)

€ million	Note	2017	2016
Non-current assets			
Property, plant and equipment	37	275	274
Intangible assets	38	69	70
Investments in subsidiaries and associates	39	2,480	1,855
Other financial assets	40	2,639	2,610
Total non-current assets		5,463	4,809
Current assets			
Other receivables		71	42
Other financial assets		-	15
Receivables from subsidiaries	41	302	735
Cash and cash equivalents	42	95	41
Total current assets		468	833
Total assets		5,931	5,642
Equity			
	43		
Share capital		684	684
Share premium		671	671
Subordinated perpetual bond loan ¹		496	496
Revaluation reserve ¹		38	46
Other reserves		1,850	1,685
Result for the year		203	282
Total equity		3,942	3,864
Non-current liabilities			
Interest-bearing debt	44	1,553	1,482
Total non-current liabilities		1,553	1,482
Provisions	45	45	47
Short-term liabilities			
Current and accrued liabilities	46	389	249
Derivatives	47	2	-
Total short-term liabilities		391	249
Total equity and liabilities		5,931	5,642

¹ The revaluation reserve and the subordinated bond loan are not freely distributable.

Company income statement

€ million	Note	2017	2016
Revenue		9	10
Own work capitalised		36	28
Other income		286	295
Total income	49	331	333
Costs of subcontracted work and other external expenses	50	-73	-60
Employee benefit expenses	51	-113	-116
Social security premiums	51	-9	-9
Depreciation of intangible assets and property, plant and equipment	52	-57	-64
Other operating expenses	53	-87	-123
Total operating expenses		-339	-372
Operating profit		-8	-39
Proceeds from receivables included in non-current assets and securities	54	133	149
Interest and similar expenses	55	-82	-79
Profit before tax		43	31
Tax	56	-9	-9
Share of profit/loss from investments in affiliated companies	57	169	260
Profit after tax		203	282

Company statement of comprehensive income

€ million	2017	2016
Profit after tax	203	282
Movement in revaluation reserve	-8	-7
Comprehensive Income	195	275

Notes to the company financial statements

Accounting policies

The company financial statements of Alliander N.V. (Chamber of Commerce company reg. no. 34108286) have been prepared according to the provisions of Part 9, Book 2, of the Netherlands Civil Code. The accounting policies used are the same as those used for the consolidated financial statements, in accordance with the provisions of Section 362, subsection 8 of Part 9, Book 2, of the Netherlands Civil Code, with investments in group companies accounted for on the basis of net asset value.

The company financial statements of Alliander N.V. comprise the company balance sheet, the company income statement and the company statement of comprehensive income. The notes to the company financial statements constitute an integral part of the company financial statements of Alliander N.V.

The carrying amount of the entities included in the consolidation is measured at net asset value, the company's economic interest being measured at fair value on initial recognition, with the carrying amount subsequently increased or reduced by the company's share in the results. Dividends received are deducted from the carrying amount.

The functional currency of Alliander N.V. is the euro. Unless otherwise stated, all amounts are in millions of euros. For the detailed policies, reference is made to the accounting policies for the consolidated financial statements.

Note 37 Property, plant and equipment

€ million	Land and buildings	Other plant and equipment	Assets under construction	Total
Historical cost	196	365	16	577
Accumulated depreciation and impairment	-65	-259	-	-324
Carrying amount as at 1 January 2016	131	106	16	253
Movements in 2016				
Investments	-	19	65	84
Depreciation	-8	-55	-	-63
Reclassifications, transfers and other movements	9	28	-37	-
Total	1	-8	28	21
Carrying amount as at 31 December 2016				
Historical cost	205	411	44	660
Accumulated depreciation and impairment	-73	-313	-	-386
Carrying amount as at 31 December 2016	132	98	44	274
Movements in 2017				
Investments	-	15	43	58
Depreciation	-7	-50	-	-57
Reclassifications, transfers and other movements	29	29	-58	-
Total	22	-6	-15	1
Carrying amount as at 31 December 2017				
Historical cost	234	455	29	718
Accumulated depreciation and impairment	-80	-363	-	-443
Carrying amount as at 31 December 2017	154	92	29	275

Capital expenditure

Capital expenditure on property, plant and equipment totalled €58 million (2016: €84 million). This mainly related to investments in hardware and software and to expenditure on buildings.

Note 38 Intangible assets

€ million	Goodwill	Other intangible assets	Total
As at 1 January 2016			
Historical cost	104	4	108
Accumulated depreciation and impairment	-	-1	-1
Carrying amount as at 1 January 2016	104	3	107
Movements in 2016			
Discontinued consolidations	-36	-	-36
Depreciation	-	-1	-1
Total	-36	-1	-37
As at 31 December 2016			
Historical cost	68	4	72
Accumulated depreciation and impairment	-	-2	-2
Carrying amount as at 31 December 2016	68	2	70
Movements in 2017			
Depreciation	-	-1	-1
Total	-	-1	-1
As at 31 December 2017			
Historical cost	68	4	72
Accumulated depreciation and impairment	-	-3	-3
Carrying amount as at 31 December 2017	68	1	69

Intangible assets as at year-end 2017 is largely made up of goodwill relating to the acquisition of Endinet (€61 million), which is allocated to Liander, and goodwill relating to Stam (€7 million), see note [4]. The decrease in the amount of goodwill in 2016 is accounted for by the goodwill allocated to the subsidiary Endinet Groep B.V. sold with effect from 1 January 2016.

Note 39 Investments in subsidiaries and associates

€ million	Investments in subsidiaries	Investments in associates	Total
Carrying amount as at 1 January 2016	2,227	1	2,228
Movements in 2016			
Dividends received	-216	-	-216
Result for the year	84	-	84
Issue of share capital	73	-	73
Movement in revaluation reserve	-8	-	-8
Sale interest Endinet	-307	-	-307
Other changes	1	-	1
Total	-373	-	-373
Carrying amount as at 31 December 2016	1,854	1	1,855
Movements in 2017			
Dividends received	-45	-	-45
Result for the year	169	-	169
Issue of share capital	511	-	511
Movement in revaluation reserve	-8	-	-8
Other changes	-2	-	-2
Total	625	-	625
Carrying amount as at 31 December 2017	2,479	1	2,480

In 2017, an amount of €45 million (2016: €216 million) was received from the subsidiaries of Liander N.V., Kenter B.V., Liandon B.V. and Utility Connect B.V. in respect of dividends. The investments of €511 million in 2017 relate to payments of capital invested in the subsidiaries of Alliander N.V.

The dividends received from subsidiaries and payments of capital invested in them result from the capital restructuring of these companies in line with Alliander's policy. Utility Connect B.V. is included in the company financial statements as a joint operation, in which Alliander's share is 59.28%.

The various share capital investments are listed separately under the heading 'Subsidiaries, associates and joint arrangements' in the 'Other information' part of the report.

Note 40 Other financial assets

€ million	Deferred tax assets	Loans granted to subsidiaries	Other receivables	Total
Carrying amount as at 1 January 2016	10	2,585	14	2,609
Movements in 2016				
New receivable	-	-	15	15
Loans paid	-	-	-14	-14
Total	-	-	1	1
Carrying amount as at 31 December 2016	10	2,585	15	2,610
Movements in 2017				
New receivable	-	29	12	41
Loans paid	-	-3	-10	-13
Realised temporary differences	1	-	-	1
Total	1	26	2	29
Carrying amount as at 31 December 2017	11	2,611	17	2,639

In June 2015, Alliander granted a long-term loan of €2,566 million to Liander, along with other lending. This amount was deducted from the current account in 2015. This means that there are two separate financing arrangements between Alliander and Liander, namely a long-term loan agreement, essentially for the purpose of financing network replacement and expansion investments, as well as the existing, separate current account agreement to finance working capital. This provides a closer match between the time horizons of the financing arrangements and the useful lives of the corresponding assets.

The long-term loan agreement with Liander runs for 10 years with automatic annual extension thereafter for periods of one year unless designated otherwise. The interest rate for 2017 is 3.15% (2016: 4.0%), this being the average cost of borrowing on Alliander's lending portfolio, plus a risk markup. The interest rate will be reviewed annually. The principal will be repayable at the latest on the conclusion of the arrangement. At year-end 2017 the fair value is €2,879 million (2016: €3,163 million).

Note 41 Receivables from subsidiaries

The other receivables include a tax asset of €39 million (2016: €31 million) and an amount of €22 million (2016: €6 million) owed by Reddyn, in which Alliander has a non-controlling interest. For further disclosures, reference is made to the item of trade and other receivables in the consolidated financial statements.

There is group-wide financing for receivables from group companies within the Alliander group, meaning that the activities of the subsidiaries are part-financed through a current account facility with the holding company. External financing is arranged by the holding company itself. Each year, there is a capital restructuring of these companies in line with Alliander's policy, involving either a dividend payout by them or an injection of capital into the entity.

The current account facility is mainly for financing the working capital of Alliander's subsidiaries. All income and expenditure is accounted for through the current accounts with the subsidiaries. Differentiated interest rates are applied to this finance, of 2.89% (2016: 3.77%) for subsidiaries operating in the regulated market, 3.86% (2016: 4.02%) for 'Stable Business' subsidiaries and 4.89% (2016: 4.77%) for 'New Business & High Risk' subsidiaries. The interest rate is based on the average cost of borrowing on Alliander's lending portfolio as at year-end 2016, possibly with a risk markup. Current-account lending is treated as a demand deposit and counts as cash-equivalent.

Note 42 Cash and cash equivalents

The cash and cash equivalents balance at the end of 2017 did not include any restricted cash (2016: nil).

Note 43 Equity

The statement of changes in equity is included in the consolidated financial statements.

Note 44 Non-current liabilities

Interest rates and repayments on long-term liabilities were as follows:

Interest-bearing debt

€ million	2017	2016
Carrying amount as at 1 January	1,562	1,660
Movements		
New loans	1,157	844
Loans repaid	-903	-942
Currency translation differences and other movements	-33	-
Total	221	-98
Carrying amount as at 31 December	1,783	1,562

Long-term interest-bearing debt including current portion

€ million	Effective interest rate		Current portion		Non-current portion	
	2017	2016	2017	2016	2017	2016
Subordinated loans	8.6%	8.6%	5	5	70	75
Private and green loans	1.3%	1.0%	-	-	88	13
Euro Medium Term Notes	2.6%	2.6%	-	-	1,395	1,394
Euro Commercial Paper	0.7%	0.0%	225	75	-	-
Carrying amount as at 31 December			230	80	1,553	1,482

The interest rate on the short-term ECP programme is a floating rate.

Maturities of interest-bearing debt

€ million	2017	2016
Less than 1 year	230	81
Between 1 and 2 years	306	6
Between 2 and 3 years	7	306
Between 3 and 4 years	8	7
Between 4 and 5 years	409	8
Over 5 years	823	1,154
Carrying amount as at 31 December	1,783	1,562

Subordinated loans

These loans were provided by shareholders and are subordinate to other liabilities

Note 45 Provisions

€ million	Long-service benefits	Termination benefits	Other employee provisions	Total
Carrying amount as at 1 January 2016	29	5	11	45
Movements in 2016				
Released	-	-6	-	-6
Added	1	19	11	31
Utilised	-2	-12	-10	-24
Interest expenses	1	-	-	1
Major curtailments and settlements	-	-	-	-
Total	-	1	1	2
Carrying amount as at 31 December 2016	29	6	12	47
Movements in 2017				
Released	-	-3	-	-3
Added	3	7	12	22
Utilised	-2	-11	-10	-23
Interest expenses	-	-	-	-
Major curtailments and settlements	-	6	-4	2
Total	1	-1	-2	-2
Carrying amount as at 31 December 2017	30	5	10	45

The long-service provision relates to the bonuses that are paid to employees on attaining 10, 20, 30, 40 and 50 years of service. As at year-end 2017, the reorganisation provision amounted to €5 million (2016: €6 million). The other employee benefit provisions mainly comprise the provision for termination payments.

Note 46 Short-term liabilities

€ million	2017	2016
Short-term liabilities		
Debts to suppliers and trade credits	8	12
Debts to associates and participants	-	9
Tax and social security contributions	79	62
Liabilities in respect of pensions	4	4
Interest-bearing liabilities	232	81
Other liabilities and accruals	66	81
Total short-term liabilities	389	249

The short-term liabilities, accruals and deferred income relate to trade payables, taxes payable and the other short-term liabilities. The interest-bearing liabilities relate to finance raised in euros and in foreign currencies in connection with the Euro Commercial Paper Programme. In order to eliminate currency risks, the foreign currency was immediately converted into euros by means of foreign exchange swaps.

Note 47 Derivatives

Financing was raised in 2017 under the Euro Commercial Paper Programme, denominated in foreign currency. In order to eliminate currency risks, the foreign currency was immediately converted into euros by means of foreign exchange swaps. The fair value of the short-term derivatives as at year-end 2017 was €2.2 million (2016: nil) and related to three foreign exchange swaps hedging the currency risk.

Note 48 Contingent assets and liabilities

Pursuant to Section 403 Book 2, of the Netherlands Civil Code, Alliander has assumed liability for the obligations arising from the legal acts of several of the subsidiaries listed in the other information. Alliander, together with its Dutch subsidiaries, forms a tax group for both corporate income tax and value added tax (VAT). Consequently, every legal entity forming part of the tax group bears joint and several liability for the tax liabilities of the legal entities included in the tax group. Alliander has also given a declaration of indemnity to network operator Liander under which its liability in this respect is restricted to the amount for which Liander itself would be liable if a tax group did not exist.

As at year-end 2017, Alliander had issued parent company guarantees amounting to €45 million (2016: €54 million) and a parent company guarantee of €5.2 million (2016: €5.2 million) for the non-controlling interest Reddyn. Bank guarantees amounting to €0.4 million had been issued on Alliander's behalf as at year-end 2016 (2016: €1 million).

Operating leases

The following table presents the future minimum operating lease payment obligations. Alliander has operating lease payables, mainly relating to buildings and company cars.

€ million	2017	2016
Less than 1 year	23	16
Between 1 and 5 years	51	38
Over 5 years	62	10
Total as at 31 December	136	64

Capital expenditure commitments

The following table presents the existing capital expenditure commitments and other purchase commitments as at year-end.

€ million	2017	2016
Capital expenditure commitments regarding property, plant and equipment	-	6
Other purchasing commitments	75	80
Total as at 31 December	75	86

Note 49 Operating income

€ million	2017	2016
Revenue	9	10
Own work capitalised	36	28
Other income	286	295
Total	331	333

Revenue mainly comprises charges passed on for CDMA data communication network services. The other income chiefly relates to group-wide activities at holding company level.

Note 50 Costs of subcontracted work and other external expense

€ million	2017	2016
Contractors, materials, external personnel and other	73	60
Total	73	60

Note 51 Employee benefit expense

€ million	2017	2016
Salaries	82	85
Social security premiums	9	9
Pension costs:		
- contributions paid to multi-employer plans that are accounted for as defined-contribution plans	12	11
Termination benefit expenses	4	5
Other long-term employee benefit expenses	7	6
	11	11
Other staff costs	8	9
Total	122	125

Staff costs mainly concerns the costs of group-wide activities at holding company level.

Nearly all the personnel are on the Alliander N.V. payroll. The staff costs are charged to the business units where the employees concerned work. The total staff costs recognised in the income statement (€122 million; 2016: €125 million) relate to Alliander N.V. corporate staff department and service unit staff.

The number of employees, based on a 38-hour week (FTE), at year-end 2017 was 1,105 (2016: 1,174).

Note 52 Depreciation and amortisation

€ million	Land and buildings	Other	Total
2017			
Depreciation	7	50	57
Total 2017	7	50	57
2016			
Depreciation	8	56	64
Total 2016	8	56	64

The amortisation of intangible assets is disclosed in the column headed 'Other'.

Note 53 Other operating expenses

€ million	2017	2016
Items charged by subsidiaries	8	13
Premises and transport	6	6
Rent and leases	12	38
Corporate staff and ICT	41	41
Accountancy, notary and consulting expenses	17	17
Sufferance tax and other tax	1	1
Other	2	7
Total	87	123

Costs passed on by group companies mainly concerns internal development projects at holding company level.

Note 54 Finance income

€ million	2017	2016
Interest income on loans and deposits	1	1
Fair value movements on financial instruments	-	1
Currency translation differences	32	-
Financial income on loans from group companies	100	147
Total	133	149

Alliander uses FX swaps to hedge the currency risk. The exchange differences arise from the effect which the movements in the US dollar exchange rate against the euro have on the finance raised in foreign currencies under the ECP Programme.

The finance income from loans to group companies was down by €44 million compared with 2016 as a result of changes in the interest rate charged and changes in the composition of group companies.

Note 55 Finance expense

€ million	2017	2016
Loans from third parties	48	51
Finance expense on loans from group companies	6	26
Currency translation differences	28	-
Other finance expense	-	2
Total	82	79

The finance expense on loans from third parties was €3 million lower, mainly due to a repayment of €400 million and contracting of a loan of €300 million at a lower interest rate in 2016.

The finance expense on loans from group companies was €20 million lower mainly owing to a change in the composition of group companies, resulting in a reduction in both income and expense overall.

The exchange differences arise from the effect which the movements in the US dollar exchange rate against the euro have on the finance raised in foreign currencies under the ECP Programme, which are hedged by means of FX swaps.

Note 56 Tax

€ million	2017	2016
Current tax expense	-10	-9
Movement in deferred tax	1	-
Total	-9	-9

The effective tax rate was 19.8%. The recognised tax expense of €10 million is made up of tax charges of €12 million for 2017 and a tax recovery totalling €2 million relating to investment incentive schemes.

The tax recovery of €1 million due to movements in deferred taxes relates to changes in the differences between the carrying amounts in the financial statements and the amounts used for tax purposes.

Note 57 Share in profit/loss from investments in affiliated companies

The share in the results of companies invested in after tax was up by €85 million, mainly due to increased profits from the network operator Liander N.V. and the energy metering company Kenter B.V.

€ million	2017	2016
Result from interests in subsidiaries and associates after tax	169	84
Result from discontinued interests in subsidiaries and associates after tax	-	176
Share of profit/loss from investments in affiliated companies	169	260

Dividend proposal 2017

The Management Board has determined, with the approval of the Supervisory Board, to add €111.8 million of the profit to the other reserves. The remaining profit of €91.5 million is at the disposal of the General Meeting of Shareholders. This equates to 45% of profit after taxation, excluding incidental items after tax that did not generate cash flows in the 2017 financial year.

The dividend for 2017 is down by €12.3 million compared with 2016 owing to the lower net profit for 2017, which is mainly explained by the fact that there was an incidental book profit on the sale of Endinet in 2016.

Events after balance sheet date

Issue and repurchase of perpetual bonds

On 29 January 2018, Alliander announced the intention to issue a new subordinated perpetual bond loan. At the same time, an offer was made for all the outstanding bonds of the €500 million perpetual bond loan issued in 2013, conditional upon the successful issue of the new loan. Subsequently, on 30 January, €500 million in new subordinated perpetual bonds was successfully issued at a coupon rate of 1.625% and an issue price of 99.144%. By the offer closing date of 5 February, applications were found to have been received from investors for repurchase by Alliander of bonds totalling approximately €413 million from the 2013 issue. The remaining amount of approximately €87 million in bonds that are still outstanding will be redeemed under the terms of the loan on 27 November 2018 at 100% of the nominal value by exercising the first right of redemption. The carrying amount of the hybrid instrument as at 31 December 2017 was €496 million. As a result of this transaction, 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.

Important subsidiaries and other participations

As at 31 December 2017	Based in	%
Consolidated subsidiaries		
Liander N.V. *	Arnhem	100%
Liander Infra N.V. *	Arnhem	100%
Liandon B.V. *	Duiven	100%
Stam Heerhugowaard Holding B.V. *	Heerhugowaard	100%
Stam & Co. Materieel B.V.*	Heerhugowaard	100%
Telinfra Support B.V.*	Heerhugowaard	100%
Stam & Co. Leidingwerken B.V.*	Heerhugowaard	100%
Stam & Co. Infratechniek B.V.*	Heerhugowaard	100%
Sol Energy v.o.f. *	Heerhugowaard	67%
Alliander Telecom N.V. *	Amsterdam	100%
Kenter *	Arnhem	100%
Alliander Participates B.V. *	Arnhem	100%
Gamog Gasnetwerk Veluwe B.V.*	Arnhem	100%
Gamog Gasnetwerk Oost-Gelderland B.V.*	Arnhem	100%
Gamog gasnetwerk Flevoland B.V.*	Arnhem	100%
Nuon Warmtenetwerken I B.V.*	Amsterdam	100%
Nuon Warmtenetwerken II B.V.*	Amsterdam	100%
Nuon Elektriciteitsnetwerken I B.V.*	Amsterdam	100%
Nuon Elektriciteitsnetwerken II B.V.*	Amsterdam	100%
Nuon Gasnetwerken IV B.V.*	Amsterdam	100%
Nuon Gasnetwerken V B.V.*	Amsterdam	100%
Nuon Gasnetwerken VI B.V.*	Amsterdam	100%
Nuon Gasnetwerken VII B.V.*	Amsterdam	100%
Nuon Gasnetwerken VIII B.V.*	Amsterdam	100%
MPARE B.V.*	Arnhem	100%
Allego B.V. *	Arnhem	100%
Allego GmbH	Berlin	100%
Allego BVBA	Antwerp	100%
Allego Charging Ltd.	London	100%
Allego Snellaad B.V.	Amsterdam	100%
Mega E-Charging B.V.	Arnhem	100%
Alliander Start-ups Holding B.V.	Arnhem	100%
BackHoom B.V. *	Arnhem	100%
Energy Exchange Enablers B.V.*	Arnhem	100%
Local (Alliander Smart Connections B.V.)*	Arnhem	100%
Alliander Duurzame Gebiedsontwikkeling *	Amsterdam	100%
Indigo B.V.	Arnhem	95%
Warmtenetwerk Hengelo B.V.	Hengelo	95%
Warmte-Infrastructuur Limburg Geothermie B.V.	Venlo	75%
Zown B.V.*	Arnhem	100%
Smart Society Services B.V.*	Arnhem	100%
Alliander AG	Berlin	100%
Alliander Netz Heinsberg GmbH	Heinsberg	100%
Alliander Stadtlicht GmbH	Berlin	100%
2. Alliander Vorratsgesellschaft mbH	Osthavelland	100%
1. Alliander Vorratsgesellschaft mbH	Brandenburg	100%
Alliander Netzbetrieb Hennigsdorf GmbH	Hennigsdorf	100%
Alliander Stadtlicht Rhein-Ruhr	Hagen	100%
Bietergemeinschaft Hagen GBR	Hagen	100%
450connect GmbH	Koln	100%
Joint operations		
Utility Connect B.V.	Arnhem	50%
Other associates and joint ventures		
Plugwise Holding B.V.	Sassenheim	38%
Locamation Beheer B.V.	Enschede	48%
INNAX Group B.V.	Veenendaal	13%
Reddyn B.V.	Arnhem	50%
EDSN B.V.	Baarn	26%
Etriplus B.V.	Venlo	25%
Duurzame Energie Netwerken Gelderland B.V.	Arnhem	50%
Biogas Gelderland 1 B.V.	Arnhem	50%
Stadtbeleuchtung Hagen GmbH	Hagen	49%

* Alliander N.V. has issued a Section 403 statement of liability for these subsidiaries.

Remuneration of the Management Board and the Supervisory Board

Remuneration of the Management Board and the Supervisory Board Information on the remuneration of the Management Board and the Supervisory Board is presented in note [24] of the 2017 consolidated financial statements.

Arnhem, 16 February 2018

Management Board

Mr M.R. van Lieshout

Ms I.D. Thijssen

Supervisory Board

Ms A. Jorritsma-Lebbink (chairwoman)

Mr G.L.M. Hamers

Ms J.G. van der Linde

Mr B. Roetert

Ms A.P.M. van der Veer-Vergeer

Other information



Profit appropriation

The profit appropriation is governed by Article 33 of the Articles of Association. The text of this article is as follows:
Article 33 Profit. Payment chargeable to the reserves.

- Subject to approval of the Supervisory Board, the Management Board determines which part of the profit available for distribution - the positive balance of the income statement - is added to the reserves.
- The profit remaining after the addition to the reserves, as referred to in the preceding clause, is at the disposal of the General Meeting of Shareholders.
- Profit distributions are limited to the distributable part of the shareholders' equity.
- Distribution of profit will take place after the adoption of the income statement, which demonstrates that it is permissible.
- The Management Board may decide to distribute an interim dividend, subject to approval of the Supervisory Board and with due observance of clause 3 above and any other provision laid down by law.
- The General Meeting of Shareholders may, on the Management Board's proposal that has been approved by the Supervisory Board, resolve to make distributions to shareholders chargeable to the distributable part of the shareholders' equity.

Independent auditor's report and assurance report

Introduction

Dear shareholders and supervisory board of Alliander N.V.,

We were engaged by the supervisory board as auditor of Alliander N.V. as of the audit for year 2016 and have therefore audited the financial statements 2017. The supervisory board was given a mandate hereto by the shareholders. Furthermore the management board engaged us to provide assurance on a selection of non-financial information in the Annual Report 2017.

Our reports in relation to both assignments, namely the auditor's report on the financial statements 2017 and the assurance report on the non-financial information, are included below.

Independent auditor's report

To the shareholders and the supervisory board of Alliander N.V.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2017 INCLUDED IN THE ANNUAL ACCOUNTS

Our opinion

We have audited the accompanying financial statements 2017 of Alliander N.V., based in Arnhem. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The consolidated financial statements included in these annual accounts give a true and fair view of the financial position of Alliander N.V. as at 31 December 2017, and of its result and its cash flows for 2017 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The company financial statements included in these annual accounts give a true and fair view of the financial position of Alliander N.V. as at 31 December 2017, and of its result for 2017 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. The consolidated statement of financial position as at 31 December 2017.
2. The following statements for 2017: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows.
3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. The company balance sheet as at 31 December 2017.
2. The company profit and loss account for 2017.
3. The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the “Our responsibilities for the audit of the financial statements” section of our report.

We are independent of Alliander N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at € 20 million. The materiality is based on 7% of profit before tax. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of € 1.0 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Alliander N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Alliander N.V.

Our group audit mainly focused on significant group entities Alliander N.V. and Liander N.V.

We have:

- Performed audit procedures ourselves at group entities Alliander N.V. and Liander N.V.
- Performed review procedures or specific audit procedures at other group entities.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board.

The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters 2016

The key audit matters “Initial audit engagement” and “Divestment Endinet Groep B.V. and acquisition of Aktivabedrijf Enexis Friesland B.V.” related to the financial statements 2016 have no longer been identified as key audit matter considering the non-recurring nature of these topics.

Key audit matters 2017

Key audit matters	Our audit procedures
<p>Tangible fixed assets</p> <p>In determining the carrying amount of the tangible fixed assets, amounting to EUR 6,793 million as at 31 December 2017, significant assumptions and judgments are applied, both in determining the amounts that should be capitalized and in assessing the useful lives of the assets. Furthermore the tangible fixed assets require significant time and resource to audit due to their magnitude. The disclosures regarding the accounting policies are included in page 130 of the financial statements. Specific disclosures regarding the tangible fixed assets are included in Notes 3, 26 and 35 of the financial statements.</p>	<p>The tangible fixed assets are measured at historical cost, less accumulated depreciation and impairment. These accounting policies are in line with International Financial Reporting Standards (IFRS) as adopted by the EU and have been applied consistently.</p> <p>Our audit procedures included obtaining an understanding of internal and external developments that are applicable to Alliander specifically or to the sector at large. Based on our risk assessment we determined the audit approach. We performed procedures to test key controls, particularly in relation to cost estimation and subsequent costing, the capitalization of projects, the processing of depreciation, the accounting for project-related hours and IT related controls for the relevant systems. We also performed substantive procedures regarding capitalized costs and depreciation.</p> <p>Furthermore we specifically paid attention to the evaluation of the useful live of the gas network. Based on the laws and regulations in place during 2017, the regional network operators are still required to connect customers to the gas network and to maintain the gas network. Also the regulatory useful live of the gas network remains unchanged. Consequently management concluded that there is no reason to shorten the economic useful live of the gas network at this moment and furthermore that (in view of the enormous impact to the general public) this discussion needs to be decided on for the sector at large.</p>
<p>Revenue recognition</p> <p>The Company's revenue for the year 2017 amounts to EUR 1,697 million and its major part is related to the regulated activities of the network operator Liander N.V. The revenue recognition process involves only limited management's judgment. Nevertheless the revenue recognition and relevant internal controls and IT systems require significant time and resource to audit due to the magnitude. Therefore revenue recognition was identified as a key audit matter. The disclosures regarding the accounting policies are included on page 135 of the financial statements. Specific disclosures regarding revenues are included in note 21 of the financial statements.</p>	<p>Our audit procedures included obtaining an understanding of the significant revenue streams and of relevant internal and external developments. Based on our risk assessment we determined the audit approach. For the material revenue streams, we determined that the accounting policies, which are in line with International Financial Reporting Standards (IFRS) as adopted by the EU, have been applied consistently.</p> <p>We tested the relevant key controls, particularly for the significant component Liander N.V. These key controls are mainly related to the processing of changes in contracts and rates, and reconciliations, but also to interfaces with external parties (including EDSN) that are used for the exchange of information regarding connections and measurement data relevant to the revenue recognition by Alliander. We also tested the operating effectiveness of IT related controls, to the extent necessary within the scope of the audit of the financial statements, and obtained and reviewed the ISAE 3402 report regarding the internal controls of the service organization EDSN.</p> <p>Finally we performed substantive procedures to test the complete recognition of revenue transactions at the appropriate rates.</p>
<p>Valuation of fixed assets in the segment Other</p> <p>For a few specific entities in the segment Other, impairment indicators were identified due to lower results than budgeted. Therefore management performed an impairment analysis for these entities. For this purpose, estimates of the recoverable amount were made based on the value in use, which involves significant assumptions and judgments with respect to future cash flows. The valuation of these fixed assets received a considerable amount of attention from management during 2017. The disclosure regarding the accounting policies are included on page 129 of the financial statements.</p>	<p>We applied a substantive audit approach and did not rely on internal controls. We considered the Company's internal procedures with regard to the identification of impairment indicators and the determination of the recoverable amount. Furthermore we tested management's estimate for the recoverable amount of the fixed assets of these entities and assessed the key assumptions based on revenue and result forecasts, contract and external market information. Finally, assisted by our valuation experts, we assessed the applied discount rate and determined that the valuation method is in line with the requirements of International Financial Reporting Standards (IFRS) as adopted by the EU.</p>

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL ACCOUNTS

In addition to the financial statements and our auditor's report, the annual accounts contain other information that consists of:

- Management Board's Report (page 3 – 116)
- Other information.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements.
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of other information, including the Management Board's Report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Engagement

We were engaged by the supervisory board as auditor of Alliander N.V. on 29 July 2015, as of the audit for year 2016 and have operated as statutory auditor ever since that financial year. The supervisory board was given a mandate hereto by the shareholders.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

DESCRIPTION OF RESPONSIBILITIES REGARDING THE FINANCIAL STATEMENTS

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

For an overview of our responsibilities we refer to NBA's website www.nba.nl (standard text auditor's report).

Rotterdam, 16 February 2018

Deloitte Accountants B.V

J. Dalhuisen

Assurance report of the independent auditor

To: The management board of Alliander N.V.

The management board of Alliander N.V. ('the Company') engaged us to provide assurance on a selection of non-financial information in the Annual Report 2017 ('the Report'). Our engagement consisted of a combination of limited assurance (leading to a 'conclusion') and reasonable assurance (leading to an 'opinion').

We were engaged to provide limited assurance on the following chapters ('the reviewed information'):

- About this report (page 3-6)
- Our story in 2017 (page 7-10)
- The profile of Alliander (page 11-35)
- Our results in 2017 reported in the chapters:
 - Customers (page 36-51)
 - Employees (page 52-62)
 - Shareholders and Investors (page 63-86)
- The impactcases on pages 42 en 62

Furthermore we were engaged to provide reasonable assurance on the following information ('the audited information'):

- The column "Results 2017" in the table on page 20-21 in the chapter 'Objective and Results'
- The summarized materiality assessment presented in the chapter 'About this report' on page 5 and the extensive materiality assessment presented in the chapter 'Other Information, Materiality Assessment' on page 198-203.

Our conclusion

Based on our review procedures performed, nothing has come to our attention that causes us to believe that the reviewed information is not prepared, in all material respects, in accordance with the Sustainability Reporting Guidelines version GRI Standards Comprehensive of GRI and the internally applied reporting criteria as disclosed in chapter 'Other Information' of the Report.

Our opinion

In our opinion, the audited information is prepared, in all material respects, in accordance with the Sustainability Reporting Guidelines version GRI Standards Comprehensive of GRI and the internally applied reporting criteria as disclosed in chapter 'Other Information' of the Report.

Basis for our conclusion and our opinion

We conducted our review and our audit of the aforementioned information in accordance with Dutch law, including Dutch Standard 3810N 'Assurance engagements relating to sustainability reports'. A review is focused on obtaining limited assurance, while an audit engagement is focused on obtaining reasonable assurance. Our responsibilities under this standard are further described in the 'Our responsibilities' section of our report.

We are independent of Alliander in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO) and other relevant independence requirements in The Netherlands. Furthermore we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Areas of focus

Areas of focus are those matters that, in our professional judgement, were of most significance in our assurance engagement of the Report. We have communicated the areas of focus to the supervisory board and management board. The areas of focus are not a comprehensive reflection of all matters discussed.

These areas were addressed in the context of our assurance assignment in relation to the Report as a whole and in forming our opinion and our conclusion thereon, and we do not provide a separate opinion on these areas.

Areas of focus	Procedures performed
<p>One of the topics Alliander N.V. reports on pages 28-33, 42, 62 and 214-215 relates to the social impact of Alliander's activities on the environment.</p> <p>Alliander applied the six capital model of the International Integrated Reporting Council (IIRC) as a basis for determining the relevant social impacts. Alliander has determined the social impacts based on the supply chain and has attempted to quantify these impacts in one unity (euro's) to the extent possible. The social impact measurement was expanded compared to prior year to include the monetization of human capital.</p> <p>As indicated by Alliander the identification, quantification and monetization of social impacts is still in the early stages of development. Therefore Alliander is obliged to make assumptions.</p> <p>We observe that the calculated consumer surplus in particular is strongly dependent on the assumptions used, the expertise contributed by the external advisors and is based on complex calculations. Furthermore the monetization of the impact on prosperity and well-being, the balance between social profit and loss and the attribution to the various participants in the energy supply chain, are not yet generally accepted. Therefore the public acceptance of the selected assumptions and calculation methods have been tested only in a limited manner.</p> <p>A summary of the key assumptions is presented in the 'Other information' on pages 214-215 of the Report.</p>	<p>Our procedures regarding the area of focus consisted of evaluating the social impact measure in chapter 'Onze impact' on page 28-33 and the impactcases on page 42 and 62.</p> <p>Based on interviews with employees and management of Alliander N.V. and the external advisors, we obtained an understanding of the methods and assumptions on which the calculations of the social impacts are based.</p> <p>Where Alliander used external advisors for performing the impact calculations (ic Trueprice), we obtained an understanding of the competency and objectivity of those advisors.</p> <p>We obtained an understanding of the calculations and performed recalculations for the key elements. For the reperformance of the consumer surplus calculation we used a model validation expert.</p> <p>For key assumptions as presented in chapter 'Overige Information' on page 214-215 of the Report we performed reconciliations with various sources such as sub-ledgers, external reports and research results.</p> <p>For prospective information or estimates we obtained an understanding of the underlying data.</p> <p>Based on the procedures performed, we obtained an adequate understanding of the methods and assumptions used by management.</p>

Unexamined prospective information

The Report includes prospective information such as ambitions, strategy, plans, expectations and estimates. Inherently, the actual future results will likely differ from these and are therefore uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the Report.

Responsibilities of the management board and the supervisory board

The management board of the entity is responsible for the preparation of the Report in accordance with the Sustainability Reporting Guidelines version GRI Standards Comprehensive of GRI and the internally applied reporting criteria as disclosed in chapter 'About this report' of the Report, including the identification of stakeholders and the definition of material matters. The choices made by the management board regarding the scope of the Report and the reporting policy are summarized in chapter 'Other Information' of the Report.

Management is also responsible for such internal control as management determines is necessary to enable the preparation of the sustainability information that is free from material misstatement, whether due to fraud or error.

The supervisory board is responsible for overseeing the company's reporting process.

Our responsibilities

Our responsibility is to plan and perform the assurance assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion and our conclusion.

Procedures performed in an assurance engagement to obtain a limited level of assurance are aimed to determining the plausibility of information and are less extensive than a reasonable assurance engagement. The level of assurance obtained in assurance engagements with a limited level of assurance is therefore substantially less than the assurance obtained in audit engagements.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Report. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We apply the 'Nadere voorschriften accountantskantoren ter zake van assurance opdrachten (RA/AA)' and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have exercised professional judgement and have maintained professional skepticism throughout our audit and our review, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Limited assurance procedures

Our main procedures included the following:

- Performing an external environment analysis and obtaining insight into relevant social themes and issues, and the characteristics of the organisation.
- Evaluating the appropriateness of the reporting policy and its consistent application, including the evaluation of the results of the stakeholders' dialog and the reasonableness of management's estimates.
- Interviewing management (or relevant staff) responsible for the sustainability strategy and policy.
- Interviewing relevant staff responsible for providing the information in the Report, carrying out internal control procedures on the data and consolidating the data in the Report.
- An analytical review of the data and trends.
- Investigating internal and external documentation, including examination of information on a test basis, to determine whether the information in the Report is reliable.

Reasonable assurance procedures

Our audit included the following:

- Identifying and assessing the risks of material misstatement of the Report, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluating the design and implementation and testing the operating effectiveness of the reporting systems and processes related to the information in the Report.
- Evaluating the overall presentation, structure and content of the Report, including the disclosures.
- Evaluating internal and external documentation, on a test basis, to determine the reliability of the information in the Report.
- Evaluating the underlying transactions and events.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant findings, including any significant findings in internal control that we identify during our audit.

From the matters communicated with the supervisory board we determine the areas of focus in the audit of the sustainability information. We describe these matters in our assurance report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not mentioning it is in the public interest.

Rotterdam, 16 February 2018

Deloitte Accountants B.V.

J. Dalhuisen

Opinion of the Alliander stakeholder panel

Dear reader

For the third successive occasion Alliander has organised a stakeholder panel. We are pleased with the invitation from Alliander to its stakeholders to provide feedback on the annual report. This summary of our feedback on the 2017 Annual Report is aimed at encouraging Alliander to bring the report even better into line with the needs of the stakeholders.

General impression

Alliander's annual report is a readable document; it has a clear structure and uses plain language. The ambition is obvious and the report provides an inspirational view of the activities in which Alliander is engaged. The transparency provided is more than sufficient; the document gives a clear account of the policy pursued and the results achieved.

Recommendations

Alliander's role in the energy transition

The energy transition is in full swing and Alliander is facilitating the revolution. The panel is keen to hear more about Alliander's vision and sphere of influence in this regard for really getting things moving. From our talks with Alliander, we understand that this poses a dilemma. How can the company help to accelerate the process despite the restrictions imposed by the regulated market? The same goes for the role that Alliander sees for itself over the next 5 to 10 years. The dialogue with the municipal and provincial authorities and the responsibilities in the supply chain deserve more attention. This also applies to the major tasks facing society in conjunction with the energy transition. It would be nice if the annual report contained an invitation to other players to join forces in the energy transition. The panel also found it surprising that the subject of climate change scored so low in the materiality analysis.

Connectivity

The annual report has been prepared on the basis of the materiality analysis. We recognise the selected subjects, and also see that these are extensively discussed in the accountability document. One aspect that should be made clearer in the report is where the dividing line lies between the most material subjects for stakeholders and how this selection was made. We therefore recommend clarifying the relationship between the risks, the materiality analysis topics and the strategy in both word and image in order to create a more all-encompassing narrative and prevent the annual report from becoming simply a listing of items.

Impact measurement

We note that Alliander made progress during the year in the quantification of impacts, i.e. the effects that society experiences as a result of an organisation's operations. We value Alliander's ambitions in this area and also appreciate the extensive insights already provided in the accountability information. Impact is one of those subjects where there is an awful lot to be said and quantified. We recommend – as soon as the company has sorted out the methodology – zooming in on those aspects of impact which really matter, allowing the management effort to be focused accordingly.

SDGs

Last year Alliander began applying the United Nations Sustainability Development Goals and extended the initial selection with an extra SDG, which was incorporated into the strategy. We both understand and back the company's decision but also note that there is a need to look beyond these primary goals to identify secondary SDGs and hope that Alliander will be exploring the scope for doing so. The link between a sustainable future and the development of work and the importance of diversity for the organisation were also discussed.

A final word

Finally, we would like to praise Alliander for its openness towards the stakeholders. We particularly appreciate the chance to give substantive feedback on draft versions of the annual report and to discuss specific issues with the management.

- Giuseppe van der Helm - former Director of the Association of Investors for Sustainable Development in the Netherlands and member of the Panel of Experts of the Transparency benchmark.
- Karen Maas – Scientific Director of Erasmus University's Impact Centre Erasmus
- Richard Liebrechts – Former partner at Ecorys and owner of Ripple-A
- André Nijhof – Professor of Sustainable Business and Stewardship, Nijenrode
- Rob van Tilburg – Sustainable Business Marketing Team Leader, Royal Haskoning DHV
- Lynn Zebeda – Member of Alliander's Board for the Future, co-founder of Dr. Monk

The stakeholder panel that assists us with the annual report forms part of our structural stakeholder dialogue. We shared a draft version of the 2017 annual report with the panel members. They responded to this in writing and their input was discussed in further detail during a lunch meeting on 19 January 2017. This meeting was also attended by our CFO Mark van Lieshout. The feedback was used to improve this report, and will also serve to further enhance the quality of our report. The stakeholder panel is independent. Perhaps you, too, would like to talk to us about the annual report or the themes confronting Alliander. We are open to dialogue and also regularly organise roundtable sessions with our stakeholders. Please contact us at communicatie@alliander.com.

Materiality test

Materiality test

Each year, Alliander determines in a structured manner the issues to be included as a minimum in the annual report. A materiality test is used for this purpose. The assessment of the material themes forms the basis for determining the content of the integrated annual report and takes place at an early stage of the reporting process. The materiality study is twofold: the stakeholder groups assess the relevance of various themes and we make an internal assessment of the impact of these themes on the company and society.

In 2017, the existing materiality analysis was recalibrated based on input from diverse sources, including stakeholder dialogue reports, a media scan and a reputation survey. The shortlist of 56 socially significant issues, as drawn up in 2015, was adjusted this year on the basis of trend surveys and a consultation round among our internal stakeholders. As a result, the list was reduced this year to 48 issues, which served as our guideline in the materiality analysis. The materiality score from the previous reporting year was consistently taken on board in the weighting. Next, we gauged the nature and scale of the impact of each selected theme for Alliander and its stakeholders.

The outcomes from the dialogues with stakeholders and the materiality of each issue were discussed with the Management Board. It was concluded that the issues stakeholders had identified as important largely corresponded with the key themes that Alliander is pursuing. The issues identified as the most material to our stakeholders has changed compared to the annual report 2016. This concerns some minor changes in the ranking of the issues according to significance. Among other things, the Energy Transition theme has been broken down in more detail to give a more diverse and precise picture of this theme. The 15 most relevant themes served as our guideline in the process of determining the content of the annual report and are extensively dealt with in the stakeholder chapters.

The process in 5 steps

Having gone through the entire Materiality Test in previous years we performed a recalibration for the 2017 annual report based on the process below.

Step 1: Identification of relevant aspects and themes

The first step consisted in drawing up a list of significant themes for society that are relevant to the organisation. The guideline here was the list of aspects as contained in the GRI Standards guidelines and the Electric Utilities Sector Supplement. The list is updated annually and, in addition to the GRI aspects, comprises material themes from the previous year, topics put forward by stakeholders and topics for which we have set internal performance indicators. The overview of themes for 2016 was the starting point for the 2017 annual report.

Impact on stakeholders

Based on a digital survey in 2015, the stakeholders assessed the societal significance of the themes on relevance. In 2016, Alliander re-examined this relevance by means of a recalibration. Based on this stakeholder input, the 48 themes affecting society were subjected to further recalibration in 2017. The results of the recalibration were classified according to stakeholder group. The outcome is a table prioritising the themes having the most significant impact from the stakeholders' point of view.

Impact for Alliander

Next, we determined the indicative impact of all societally significant themes on the organisation in 2017. The extent of the impact was assessed internally and then broadly validated within the organisation by relevant experts. The impact model as applied within this method consists of three aspects:

- Negative impact: how great is the impact on Alliander if the organisation does not perform well on the theme; how great is the impact on stakeholders if Alliander fails to manage the negative impacts on external stakeholders sufficiently?
- Positive impact: how great is the impact on Alliander if the organisation performs well on the theme; how great is the impact on stakeholders if Alliander makes a positive contribution for external stakeholders?
- Probability: what is the probability of these positive or negative impacts occurring, and within what time horizon.

The impact analysis provides insight into the opportunities and risks for the organisation as well as the priority that should be given to addressing the topic.

Step 2: Weighting and comparison with 2016

For the materiality test, Alliander applies a weighted average over several years. Apart from being more reliable and less sensitive to hypes and measurement errors, this approach also serves to highlight trends in the materiality of the themes.

Step 3: GRI aspects with relevance for Alliander

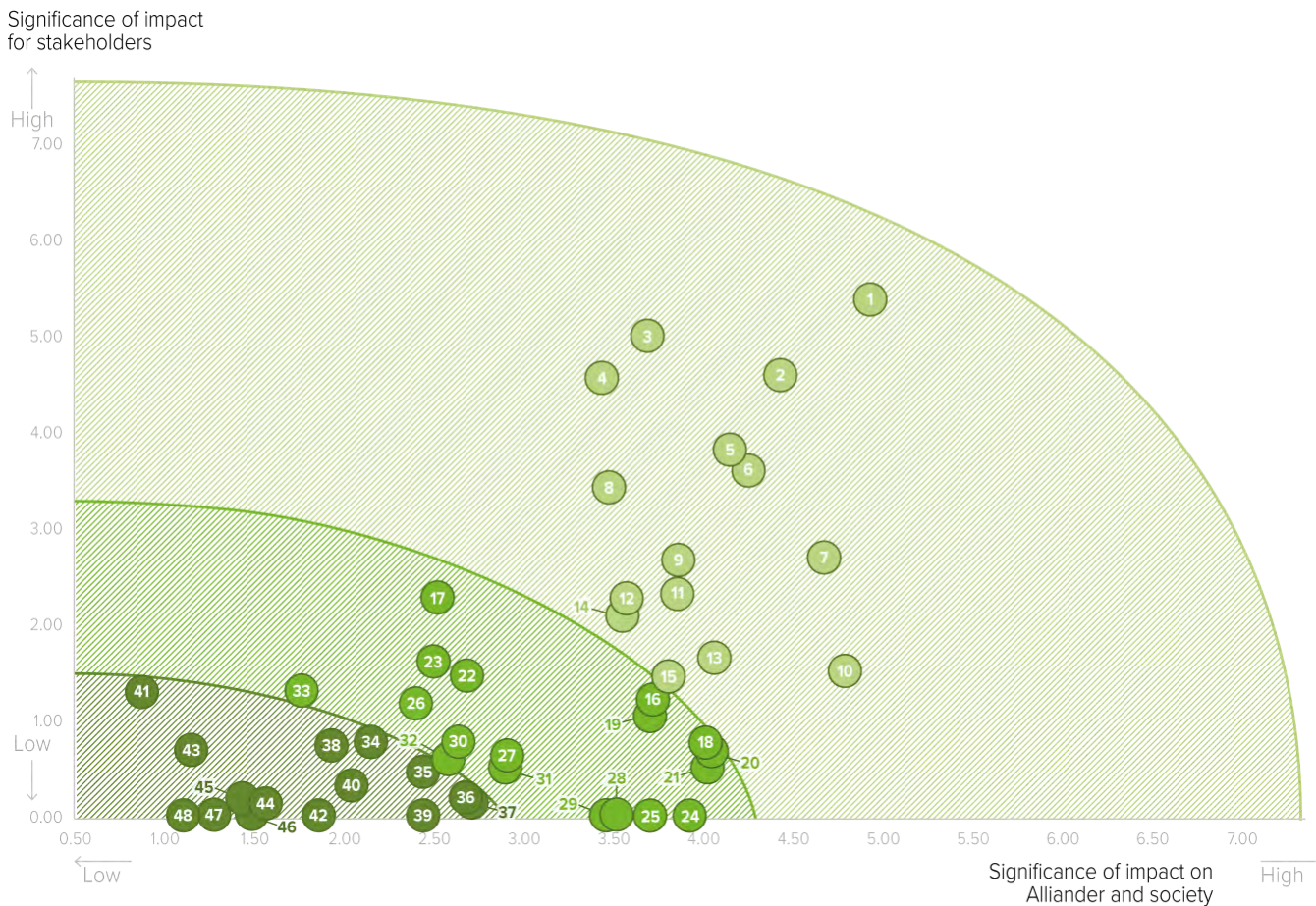
High-materiality themes have been matched with the corresponding effects in the GRI guidelines. This overview is the yardstick for the composition of the accountability information in this annual report

GRI aspect	Alliander theme	Description	Reference
Safety and working conditions	Health & safety	Working on gas and electricity infrastructure carries inherent risks (live parts, gas, possible presence of asbestos, etc). Safe incident-free working practices are vital for everyone involved.	Our results: Employees
	Safe infrastructure	Gas and electricity may involve risks. The safety of our networks for everyone involved is our highest priority. Incidents in the gas and other networks and with grey cast-iron gas pipes re-emphasise the importance of our focus on safety. We work together with parties in the safety chain.	Our results: Customers
	Training and development	Technology and organisations are changing continuously and at a rapid pace. Working has become lifelong learning.	Our results: Employees
Product and Service	Regulation and tariffs	The network operator's cost level in relation to the sector average forms the basis for the tariffs permitted by the Netherlands Authority for Consumers & Markets. Our tariffs and ability to operate depend largely on external factors. We try to keep the tariffs for our customers stable. This partly determines the financial resources at our disposal for investments and other purposes.	Our results: Customers, Shareholders and Investors
	Customer satisfaction	Customers count on excellent service, communication and handling of interruptions and complaints. We respond adequately to customer needs and actively promote customer satisfaction.	Our results: Customers
	Reliability of supply	Uninterrupted availability of energy is of vital importance to society. Interruptions have a direct impact on the interests of our stakeholders. Key regulatory and supervisory frameworks ensure that our capacity planning is organised in such a way that the expansion and replacement of networks and installations is properly aligned with the needs of our customers and society.	Our results: Customers
	Smart networks and data technology	The energy infrastructure is becoming smarter. The addition of IT makes it possible to manage fluctuations in energy supply and demand and respond to evolving market relationships in a reliable, efficient and safe manner. Data technology leads to more and better data and open data. This creates opportunities and also new dependencies. What arrangements and protocols are in place and what does this mean for the customer?	Our results: Customers
Energy	Role in energy generation	Energy generation is increasingly becoming a matter for consumers and businesses. Network operators face numerous questions, such as whether they are allowed to give priority to renewable energy feed-in or should take responsibility for promoting renewable energy generation.	Our results: Shareholders and Investors
Emissions	Climate change, Energy usage and CO2	The CO2 footprint from fossil energy contributes to climate change. Alliander is a link in the energy chain and thus has both direct and indirect responsibility for this issue. Directly due to, for instance, the energy usage in its networks, buildings and mobility. Indirectly due to energy usage elsewhere in the chain. The energy transition offers opportunities to develop a climate neutral and efficient energy system.	Our results: Shareholders and Investors
Supplier responsibility	Chain responsibility	Outsourcing, investments and production in other countries sometimes lead to an increased risk regarding the recognition of and compliance with standards in such areas as fundamental human rights, safety and the environment. An organisation can involuntarily become involved in dubious practices such as child labour. In the Netherlands, too, careful assessment is required to see whether the local expenditures detract from or contribute to society. The assessment of suppliers in the supply chain is part of sound CSR policy.	Our results: Shareholders and Investors
Public policy	Transparency	To what extent is Alliander willing, able or obliged to be open to society about its intentions, operations and decision-making? Are we transparent about subjects for which we need the cooperation of other parties (lobbying)? To what level of detail, and with what frequency, do we communicate and share information with whom?	Other information, About this report
Economic performance	Economic performance	What contribution does Alliander make to its stakeholders by means of revenue, employee remuneration, donations and other social investments. How do we deal with retained earnings and payments to providers of capital and authorities?	Our results: Shareholders and Investors

	Innovation	To keep up with the changing energy landscape and to be ready for the energy system of the future, it is extremely important for us to be able to apply new technologies and solutions. Alliander has the ambition to play a prominent role in the energy transition. This calls for focus and choices regarding the role we want to play in innovation.	Profile Our impacts
	Investment policy	As a large company, we can support social developments through investments, for example in a sustainable energy system. What factors do we consider in our investment decisions? How do these help our business units to achieve their objectives?	Our results: Shareholders and Investors
Anti-competitive behaviour and corruption	Corporate governance and business ethics	Adequate, effective and accountable supervision based on clear guidelines benefits the company and its stakeholders. What values guide our actions within the organisation and the way we do business? What supervisory mechanisms does the Supervisory Board use? Have all corruption and anti-trust risks been accurately identified and assessed, is our outsourcing procedure clear and how do we safeguard the safety and security of people and operating assets? What role do ethics play and do we know the impact on the world around us?	Corporate Governance

Step 4: Materiality matrix

The combination of the relevance for stakeholders on the Y-axis and the impact of the themes on the organisation on the X-axis shows the theme's impact on the level of the organisation's social performance and thus the priority it has within the annual report. The materiality matrix provides a cross-section of the most material topics for Alliander's annual report.



1 - 15

- 1 Reliability of supply
- 2 Safe and healthy working practices
- 3 Innovation
- 4 Role of energy generation
- 5 Smart networks and data technology
- 6 Regulation and tariffs
- 7 Safe infrastructure
- 8 Transparency
- 9 Economic performance
- 10 Training and development
- 11 Customer Satisfaction
- 12 Climate change, energy consumption and CO₂
- 13 Investment policy
- 14 Chain responsibility
- 15 Corporate governance and business ethics

16 - 33

- 16 Financial policy compliance
- 17 Energy storage
- 18 Access to energy
- 19 Risk management
- 20 Smart energy meters
- 21 Energy feed-in
- 22 Energy saving and services
- 23 Executives' Pay (Standards) Act (WNT)
- 24 Digitisation and robotisation
- 25 The price of energy
- 26 Compliance
- 27 External credit and sustainability ratings
- 28 Cybersecurity
- 29 Data security and privacy
- 30 Diversity and inclusion
- 31 Environmental pollution and emissions
- 32 Use of scarce materials, depletion of natural resources
- 33 Marketing, communication and media relations

34 - 48

- 34 Employment and inclusive labour market
- 35 Equal remuneration for men and women
- 36 Work-life balance
- 37 Workplace well-being
- 38 Waste, recycling and circularity
- 39 Changing business and organisational models
- 40 Social cohesion, local initiatives
- 41 Stakeholder dialogue and wider community
- 42 Impact on local economy and suppliers
- 43 Public policy and lobby for appropriate regulation
- 44 Ecosystem and biodiversity
- 45 Health and EMR (electromagnetic radiation)
- 46 Mobility and housing
- 47 Social and political instability
- 48 Activities in vulnerable countries

Alliander subdivides the results of the materiality analysis into three categories.

Key themes

These are the 15 themes in the materiality matrix that are distinctive in the perception of a large group of stakeholders and for our performance. These themes are addressed at length in the annual report.

Corporate themes

These are themes that, viewed across a broad group of stakeholders, receive less priority. This concerns themes that are relevant to certain stakeholders for operational reasons or must be reported on for compliance purposes. They are dealt with to a limited extent in the annual report and explained further in the GRI Index if necessary.

Potential themes

These are themes to which most stakeholders currently assign less priority and that have a lower impact on the organisation. However, these themes may in future be given more weight and are being monitored and, where necessary, maintained by Alliander. For statutory reasons, some of these themes form part of the annual report or the explanation in the GRI Index.

Step 5: Implementation

The materiality of topics as determined by the Management Board provides the basis for the design, content and management of the annual reporting process. It is decided how the topics are worked out and how these are incorporated in the information-gathering process. Business units prepare the reporting process in cooperation with the responsible departments and set out the data validation and verification arrangements. Further information on the reporting process can be found in 'About this report' and the GRI Index Table.

Material issues

This part of the report expands on the aspects relating to the material issues.

1 Reliability of supply

Input and relationships relevant for theme



Stakeholder expectation

Continuous supply of energy is of great social importance. Interruptions have a direct impact on the interests of our stakeholders. Customers want immediate information about interruptions, as well as an indication of the estimated outage time.

Our long-term objective

We aim for a consistently low electricity outage duration of at most 21 minutes per year.

Contribution from Alliander

We work daily to secure a continuous energy supply, both now and in preparation for the future. We invested Euro 666 million in the quality of our networks to increase their reliability. Our outage duration was 20.9 minutes in 2017.

Relationship with strategy

Reliability

Risks

Safety, Availability of technical staff in labour market, Insufficient long-term regulatory focus, Required competences, Facilitation of energy transition, Cybercrime

Stakeholder information

Customers

2 Safe and healthy working practices

Input and relationships relevant for theme



Stakeholder expectation

Safe working practices are vital for all stakeholders. Employees expect a working environment where they can concentrate and work safely. Customers expect us to guarantee their safety during the performance of our work.

Our long-term objective

Everyone safely home! That is Alliander's safety ambition. The objective is an LTIF (lost time injury frequency) of 2.0 or lower. In addition, Alliander promotes a culture where safety comes first. This culture can be described as: "Alliander wants to find out which safety rules are considered important, listen and learn, and take responsibility. The responsibility for safety and regulatory compliance mainly rests with the senior management. Safety is a top-of-mind concern and that is appreciated".

Contribution from Alliander

Last year we performed a large-scale safety audit to see whether safety is well-organised and anchored in our organisation. We also investigated the exposure to hazardous substances. In 2017, Alliander enjoyed a long period without any accidents leading to absenteeism. This helped Alliander to achieve its lowest-ever LTIF score at 1.4.

Relationship with strategy

Reliability

Risks

Safety

Stakeholder information

Employees

3 Innovation

Input and relationships relevant for theme



Stakeholder expectation

The energy transition comprises a shift away from fossil energy generation towards local renewable energy sources, thereby promoting the transition to a more sustainable society. Customers expect flexible and reliable networks, enabling them to feed in energy whenever they want.

Our long-term objective

Technical and economic developments make new solutions both feasible and necessary. Alliander wants to do its bit by facilitating the energy transition.

Contribution from Alliander

The energy transition demands new and smart applications for the energy networks. Alliander invests in these smart technologies to facilitate the transition to a sustainable society, while continuing to guarantee reliability of supply. In 2017, the amount of solar energy that customers fed into our network increased strongly. We also helped customers with local storage and made improvements to achieve better network management. And we engaged in innovative business activities to explore new markets.

Relationship with strategy

Accessibility

Risks

Insufficient long-term regulatory focus, Privacy of energy data, Required competences, Facilitation of energy transition

Stakeholder information

Customers

4 Role of energy generation

Input and relationships relevant for theme



Stakeholder expectation

As we advance towards the new energy system, energy generation based on fluctuating sources such as solar and wind is becoming increasingly important. We are carrying out pilots together with other parties, including suppliers and users, to gain valuable practical experience in this area. Alliander wants to respond actively to the changing energy landscape and future developments. This includes embracing new technologies and solutions. Trials are in progress with various parties, such as in Rijsenhout. Customers expect us to help them make new energy choices.

Our long-term objective

We want to gain experience in order to realise the energy system of the future with the smartest solutions possible for our stakeholders. We do this by exploring new markets and encouraging market parties to pursue and implement sustainable innovations.

Contribution from Alliander

In 2017, we set up testbeds in various places such as Rijsenhout, where we are trying out and gaining experience with smart energy solutions, together with customers and other partners. We also engage in business activities in the field of electric mobility and help customers make responsible energy choices.

Relationship with strategy

Accessibility

Risks

Required competences, Insufficient long-term regulatory focus, Facilitation of energy transition

Stakeholder information

Customers

5 Smart networks and data technology

Input and relationships relevant for theme



Stakeholder expectation

The energy infrastructure must be capable of matching fluctuations in supply and demand for energy in a reliable manner. Smart networks and data technology help us to make targeted and effective investments in networks as well as to prevent outages and repair faults faster. Customers expect a network that enables them to feed in energy without any problem. They also expect us to make the network more reliable and transparent by means of innovative technology.

Our long-term objective

Alliander's objective is to realise 95% of its most important digitisation programmes within Alliander. The aim of these programmes is to construct intelligent networks and offer smart meters. This is included in Liander's activities plan.

Contribution from Alliander

We are working at various locations to make our energy networks smarter. These initiatives include the integration of smart technology into medium-voltage stations, the roll-out of a switching system for public lighting, the large-scale roll-out of smart meters and the implementation of ICT applications and sensors for managing the flexible flow of energy. Smart networks support a more efficient use of capacity and infrastructure, and are also more reliable. By expanding our smart energy networks, we are laying the groundwork for the digital services of the future. Unfortunately, we did not achieve our objective and must carefully assess how these efforts can be continued more effectively in the coming year.

Relationship with strategy

Accessibility, Reliability

Risks

Privacy of energy data, Cybercrime, Required competences

Stakeholder information

Customers

6 Regulation and tariffs

Input and relationships relevant for theme



Stakeholder expectation

Network operators charge costs to their customers. These tariffs are regulated and set by our regulator, the Authority for Consumers & Markets (ACM). Customers want to have a grip on their energy costs, as well as predictable network operation tariffs.

Our long-term objective

Continuously outperform the sector in terms of costs and operational excellence. In addition, Alliander wants to realise solid financial results.

Contribution from Alliander

In 2017, we devoted attention to cost reduction, adhered to a careful investment schedule and expenditure pattern, and closely monitored our position in the national benchmark of energy network operators. In addition, we worked on our strategy to keep the social costs for energy as low as possible, also in the future. In 2017, the network operation tariffs at Liander for our customers were comparable with those in the previous year. The tariffs would have been lower if they had not been taxed with sharply higher regional surcharge tax levies. Surcharge tax was abolished in 2017. Municipalities are no longer allowed to increase their tariffs and must reduce them to zero over the next 5 years. In 2022, the tariffs will no longer contain a surcharge tax component.

Relationship with strategy

Affordability

Risks

Insufficient long-term regulatory focus, Facilitation of energy transition

Stakeholder information

Customers

Shareholders and investors

Financial Statements

Strategy

7 Safe infrastructure

Input and relationships relevant for theme



Stakeholder expectation

Customers expect us to ensure a safe infrastructure and to guarantee their safety during the performance of our work.

Our long-term objective

Everyone safely home! That is Alliander's safety ambition. This applies both to our own people, and to the quality and reliability of our installations. That is why we continuously invest in the reliability of our infrastructure. Our focus here is on the top risk-mitigating projects, including 25 specifically identified projects.

Contribution from Alliander

In 2017, Alliander invested about € 800 million in the reinforcement, digitisation and maintenance of its networks. We completed 46% of our most important projects. Furthermore, our staff received calamity and incident response training in order to be well-prepared for unforeseen events that impact on, for instance, our infrastructure.

Relationship with strategy

Reliability

Risks

Safety, Availability of technical staff in labour market

Stakeholder information

Employees

Customers

8 Transparency

Input and relationships relevant for theme



Stakeholder expectation

Stakeholders request Alliander to be open about its intentions, operations, decision-making and dilemmas.

Our long-term objective

We aim to gain and retain a leading position in the Transparency Benchmark and apply GRI Standards. We conduct an active dialogue with a broad group of stakeholders and organise a stakeholder panel.

Contribution from Alliander

Alliander is a stakeholder-driven company and asks stakeholders for their feedback on plans. In the past year, Alliander ended in 2nd place in the Transparency Benchmark of the Ministry of Economic Affairs. This year, too, an external stakeholder panel provided extensive input for our annual report. Moreover, our annual report adheres to the latest GRI SRS guidelines. In 2017, we expanded our accounting initiatives to include continuous reporting. Online dialogues were conducted about various material themes, including the energy transition. We apply the principles of the revised Dutch Corporate Governance Code wherever relevant.

Relationship with strategy

Reliability, Affordability, Accessibility

Risks

None

Stakeholder information

Corporate governance

About this report

Materiality test

9 Economic performance

Input and relationships relevant for theme



Stakeholder expectation

Stakeholders expect a clear picture of the value that Alliander realises and stable financial results.

Our long-term objective

We want to realise value for our stakeholders and contribute to a better society. We have set targets for our ratings, FFO/Net debt ratio and solvency and monitor their progress.

Contribution from Alliander

In 2017, we created sustainable value for our stakeholders. Salary increases under the collective labour agreement, investments in networks and buildings, procurement expenditures, employee volunteering, social sponsorship and dividend for providers of capital demonstrate our broad economic and social contribution.

Relationship with strategy

Affordability

Risks

Financial risks

Stakeholder information

Shareholders and investors

Financial Statements

Regional information

10 Training and development

Input and relationships relevant for theme



Stakeholder expectation

Alliander is a company that works hard to promote training and development. Employees are actively encouraged to develop their professional and personal skills with a range of training and development opportunities. This includes safety courses wherever relevant.

Our long-term objective

Alliander needs well-equipped professionals who contribute to the energy issues of today and tomorrow.

Contribution from Alliander

To find solutions for the energy issues of today and tomorrow, we invest a lot. In technology and, above all, in our people. We offer excellent compensation and benefits. And we offer excellent training. To help our employees get the best out of themselves. That is good for them and good for the company. Our professionals work on challenging projects. So what gives them energy? Doing a meaningful job that really matters to society. We listen to our customers and invite them to come up with innovative and smart ideas. That way, we are able to deliver even better solutions for the energy issues of today and tomorrow.

Relationship with strategy

Accessibility, Reliability

Risks

Availability of technical staff in labour market, Required competences, Facilitation of energy transition, Safety

Stakeholder information

Employees

11 Customer satisfaction

Input and relationships relevant for theme



Stakeholder expectation

Customers count on excellent service, communication and handling of interruptions, questions and complaints. Municipalities and business customers expect a clear point of contact and that we deliver on our commitments.

Our long-term objective

Our consumer and business customer satisfaction ratings remain higher than the national benchmark of Dutch network operators.

Contribution from Alliander

We work daily to secure a continuous energy supply, both now and in preparation for the future. The quality of our services and communications vis-à-vis business customers and municipalities was improved. Our digital services were improved thanks to our 24/7 online accessibility and short response times. The website experience for consumers and business customers was also further enhanced. Our performance was above the benchmark for business customers, and just below the benchmark for consumers.

Relationship with strategy

Reliability

Risks

Required competences, Privacy of energy data, Facilitation of energy transition

Stakeholder information

Customers

12 Climate change, energy consumption and CO₂

Input and relationships relevant for theme



Stakeholder expectation

Due to the changing climate, the sea level is rising and extreme weather situations such as storms and prolonged periods of drought or rainfall are becoming more frequent. Climate change is a global problem. Stakeholders expect an active climate policy aimed at lower emissions throughout the energy chain.

Our long-term objective

We aim to reduce our carbon emissions.

Contribution from Alliander

Alliander must prepare for situations that may jeopardise its operations. At the same time, Alliander has a large carbon footprint and is among the top 30 emitters of the Netherlands. These emissions contribute to climate change. It is important to this impact. We are carrying programmes to make our operations more sustainable.

Alliander has started various initiatives to reduce its carbon emissions, including the increased use of green energy through the procurement of Guarantees of Origin for renewable energy generated in the Netherlands. We are working within the Dutch network operator community to create a uniform standard for calculating our footprint. Our carbon emissions in 2017 were lower than in the year before.

Relationship with strategy

Accessibility, Affordability

Risks

Insufficient long-term regulatory focus

Stakeholder information

Shareholders and investors

13 Investment policy

Input and relationships relevant for theme



Stakeholder expectation

Stakeholders expect a clear picture of the value that Alliander realises and stable financial results. Sustainable value creation is an increasing priority for them.

Our long-term objective

The key aim of our financial policy is to at least maintain a solid A rating profile. This is vital to implement our strategy and play a facilitating role in the energy transition.

Contribution from Alliander

In 2017, we created sustainable value for our stakeholders and retained our solid A rating. In the interests of our providers of capital, we seek to strike the right balance between an adequate shareholder return and the protection of bond holders and other providers of debt capital, while preserving the flexibility to invest and grow.

Relationship with strategy

Affordability

Risks

Financial risks

Stakeholder information

Shareholders and investors

Financial Statements

Regional information

14 Supply chain responsibility

Input and relationships relevant for theme



Stakeholder expectation

With an annual procurement volume of about € 900 million, we are a major purchaser of products and services in the Netherlands. Stakeholders expect us, together with our suppliers, to ensure that our procurement is as sustainable as possible. If we can persuade our suppliers to take sustainability as seriously as we do ourselves, we can generate a significant positive impact through our supply chain.

Our long-term objective

We actively seek to improve our supply chain performance. This includes making plans with our suppliers to reduce CO₂ emissions and promote responsible operations. Our objective is to purchase at least 71% of our procurement volume according to socially responsible procurement principles. In addition, all suppliers must meet the Alliander Code of Conduct.

Contribution from Alliander

As well as highlighting our compulsory Code of Conduct to all suppliers, we purchased 70.4% of our procurement volume on the basis of Socially Responsible Procurement (SRP) statements in 2017. These SRP statements help us to achieve our socially responsible procurement objective in the Netherlands and back up our sustainability efforts among our suppliers.

Relationship with strategy

Reliability, Affordability, Accessibility

Risks

None

Stakeholder information

Shareholders and investors

15 Corporate governance and business ethics

Input and relationships relevant for theme



Stakeholder expectation

Stakeholders must be able to trust us to take their interests into consideration in a careful manner. Good corporate governance, adequate supervision and transparent accountability are essential to ensure stakeholders' trust in management and supervision. Accordingly, management must act with integrity and transparency, and the Supervisory Board render account of its supervision. This is crucial in view of our vital role in society.

Our long-term objective

We continue to comply with applicable laws and regulations and anticipate regulatory changes in good time.

Contribution from Alliander

Adequate and effective supervision is performed by the Supervisory Board, based on clear guidelines. We comply with the Dutch Corporate Governance Code wherever possible and applicable. In doing so, we emphasise our responsibility for the social aspects of entrepreneurship.

Relationship with strategy

Reliability

Risks

None

Stakeholder information

Corporate governance

Notes to the SDGs

Affordable and sustainable energy



Explanation
 "Ensure access to affordable, reliable, sustainable and modern energy for all"

Alliander's contribution to SDG 7 in the long term*

- Annually connect all new local generation in our regions
- Make heating transition arrangements with all municipalities and corporations in our service areas by 2020
- Zero CO₂ emissions on an annualised basis from 2023
- A maximum outage duration of 21 minutes

Actions and policy

- Alliander aims to keep costs as low as possible for the customer and to divide costs as fairly as possible
- Alliander facilitates the energy transition, for instance by offering open and sustainable networks
- Actively improve the energy efficiency of our own operations
- Offer insight into energy usage with Smart meter and options for meter applications
- Make network losses greener by investing in renewable generation
- Participation in international initiatives aimed at knowledge sharing and technology development and application

Our results in 2017

- Outage duration is 20.9 minutes
- CO₂ emissions amount to 632 ktonnes
- Smart meters offered to 535,740 addresses

Impact

- Economic added value
- Climate change and resource depletion

*We, at Alliander, contribute mainly to the following SDG sub-targets: 7.1, 7.2, 7.3, 7.4 and 7.5

GRI Standards - Climate change, energy consumption and CO₂ (GRI 302), Regulation and tariffs (own indicator) / Reliability of supply (own indicator)

Sustainable living environment



Explanation
 "Make cities and human settlements inclusive, safe, resilient and sustainable"

Alliander's contribution to SDG 11 in the long term*

- Make sufficient capacity available
- Provide infrastructure and capacity for e-vehicle charging points

Actions and policy

- Keep tariffs under control
- Improve air quality by facilitating clean electrical transport
- Introduce and apply flexible pricing (e.g.: pay per use)
- Sustainable area development, ambitious housing by means of transition buildings
- Make Alliander a zero-energy company
- Research into substitution of gas and awareness of gas usage
- Participation in Green Alliances and networks

Our results in 2017

- 58% of planned digitisation programmes completed
- CO₂ emissions for our buildings decreased 10% compared to 2016

Impact

- Economic added value
- Climate change and resource depletion
- Cooperation in districts and neighbourhoods

*We, at Alliander, contribute mainly to the following SDG sub-targets: 11.3, 11.6 and 11.a

GRI Standards - Safe infrastructure, GRI 201: Economic performance, Transparency (GRI 415) / Investment policy (EU6) / Role of energy generation (Own indicator)

Circular economy



Meaning
"Ensure sustainable consumption and production patterns"

Alliander's contribution to SDG 12 in the long term*

- In 2025, 90% of our primary asset procurement is based on circular principles

Actions and policy

- Extended use of existing assets and, where applicable, replacement of assets with recycled materials
- Circular network operator: map out a concrete circular roadmap
- Expansion and further operational integration of raw materials passport
- Transparency on sustainability information
- Climate-neutral in 2023
- Cooperation and participation in Green networks and Dutch infrastructure companies
- Sustainable procurement

Our results in 2017

- At least 70.4% of our procurement is socially responsible

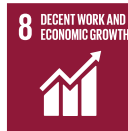
Impact

- Climate change and resource depletion

*We, at Alliander, contribute mainly to the following SDG sub-targets: 12.2, 12.5 and 12.6

GRI Standards - Climate change, energy consumption and CO₂ (GRI 305), Supply chain responsibility (GRI 301/414, own indicator)

Decent and safe work



Explanation
"Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for everyone"

Alliander's contribution to SDG 8 in the long term*

- Annually offer 100 apprenticeships to people at a distance from the labour market
- By 2025, 33% of our managers are female
- LTIF lower than 2 and absenteeism lower than 3.9%

Actions and policy

- Lifelong training and education for all our employees
- Safety programme and high safety ladder score
- Finding work via step2work
- Social covenant
- Raising health awareness among employees (e.g. Alliander Fit)
- Diversity and inclusion: encourage the recruitment of women in leadership positions, members of non-western ethnic groups and people at a distance from the labour market

Our results in 2017

- Offer 102 apprenticeships to people at a distance from the labour market
- 25% of all leadership positions are filled by women
- Absenteeism percentage of 4.2%
- CO₂ emissions amount to 632 ktonnes
- Smart meters offered to 535,740 addresses

Impact

Well-being of our employees

*We, at Alliander, mainly contribute to the following SDG sub-targets: 8.2, 8.5 and 8.8

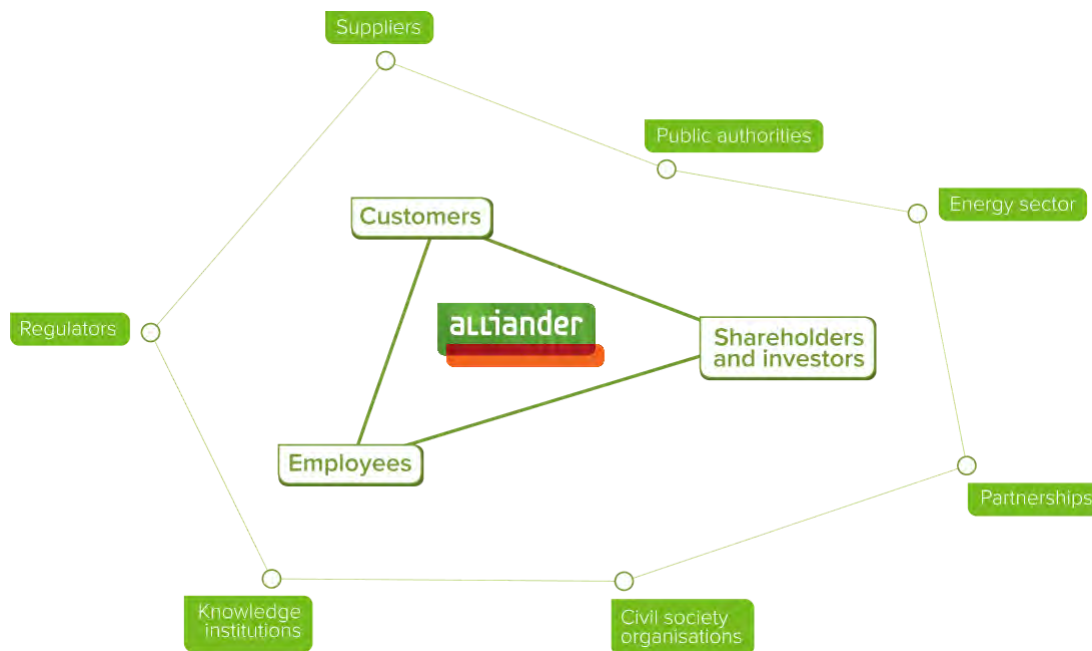
GRI Standards – Safe infrastructure & Occupational health and safety (GRI 403), Training and Education (GRI 404), Economic performance (GRI 201)

Interaction with stakeholders

Based on high-impact themes, we regularly seek to identify suitable parties for Alliander's dialogue. Engagement, size, willingness to enter into dialogue and expertise are crucial considerations in this respect. We aim to find a common approach to issues, create support for initiatives, build trust and devise solutions with added value. Both for the short and long term. We maintain a daily dialogue with our customers about their energy demands, with our shareholders about promoting sustainable solutions, and with our employees about being an employer of choice. Together with all our stakeholders, we are moving forward towards the energy supply of the future.

The Alliander stakeholder model comprises three stakeholder groups. A distinction is made between:

- key stakeholders: customers, employees and shareholders & investors;
- other stakeholders such as: suppliers, knowledge institutions, regulators and civil society organisations.



Contacts

We conduct the dialogue with stakeholders on both an ad hoc and a structured basis. This includes the organisation of customer panels and shareholder consultations as well as meetings with the Works Council. Supplier days, knowledge and partner meetings and participation in network organisations are important forms of contact with stakeholders. We are in regular contact with politicians in the Netherlands and at the European institutions, and we also liaise with regulators. In 2016, the Management Board embarked on a tour of all municipalities and provinces in our service area in order to engage in a dialogue about the challenges of our energy system of the future. We spoke with many local government representatives to discuss ambitions and choices in the light of climate objectives and the energy transition.

Interaction with stakeholders

Stakeholders	Organisation or platform	Type of Interaction	Items for discussion	Reference
Customers - consumer market	Customer contact web panel Customer survey Customer ombudsman Customer panels Consumer organisations	Digital panel Quantitative survey (four per year) Complaints and mediation (case by case) Qualitative research (various forms) Dialogue (incl. Consumer Association, Vereniging Eigen Huis)	Collaboration, relationship management, dialogue and improved service	Customers
Customers - business market	Trade associations Energy cooperatives	Dialogue and relationship management (incl. VEMW, Uneto VNI, Bouwend Nederland, VNO NCW)	Collaboration, dialogue, improved service	Customers
Employees	Employee survey Employee representation Young employee network Tension Female employee network Lianne GBLT network Pride Staff association Foundation Trade Unions	Quantitative survey (quarterly) Formal consultation (monthly) Dialogue/ workshops/ meetings Ditto Ditto Employee association Employee volunteering Periodic consultation on compensation & benefits	Participation, dialogue, employee engagement and initiatives, formal consultation on compensation & benefits	Employees
Shareholders and Investors	Provinces and municipalities	General Meeting of Shareholders (at least once annually) Major shareholder consultations (three times a year) Company visits, management consultation, individual contact. Two-yearly reputation survey. Periodic newsletter	Formal and informal consultation, knowledge and insight into activities	Shareholders and Investors
	Lenders, investors and credit rating agencies	Periodic consultation and reporting on financial results	Accountability and commentary	Financial
Social stakeholders	Central government and European Union	Consultation, participation, viewpoints (projects, ad hoc)	Advocacy and (pro-)active dialogue	Shareholders and Investors
Authorities	Provinces and municipalities	Consultation, collaboration, projects (incl. IPO and VNG)	Alignment of climate and environmental plans and projects	Shareholders and Investors
Politics	Both houses of Dutch parliament, States General, ministries	Relationship management, working visits, pro-active and reactive provision of information. Two-yearly qualitative survey	Provision of information in general sense and on specific topics	All stakeholders
Regulators	Netherlands Authority for Consumers & Markets Netherlands Authority for the Financial Markets Dutch Data Protection Authority EU Regulators	Periodic meetings on current topics and issues Standard and ad hoc information requests	Inform, exchange and explain	Customers
	State Supervision of Mines Dutch Safety Board	Periodic meetings on current topics and issues Standard and ad hoc information requests	Inform, exchange and explain	Customers
Energy sector	Cedec, Cogen EnergieNederland Energy producers/suppliers Energy Storage Netherlands European Distribution System Operators for electricity (Edso) Eurelectric, Eurogas, ENCS IGU, IEA Flexible power Alliance Network (FAN) Netbeheer Nederland Nedu Tennet Employer Association WENb	Board membership (monthly) Working groups (monthly) Stichting E-laad (ongoing)	Knowledge exchange, partnerships, representation of interests, cooperation	Customers
Suppliers	Contractors and industry Suppliers of goods and services	Contractors' day Suppliers' days Theme-based consultations Responsible procurement consultation	Collaboration, Relationship management, Dialogue	Financial

Knowledge institutions	Educational institutions and knowledge organisations Sustainable Electrical Energy Center of Expertise	Collaboration with Radboud University Nijmegen, HAN University of Applied Sciences, Regional Training Centres. Universities of Technology in Delft, Eindhoven and Twente.	Knowledge exchange and partnerships	Employees
Media	National and regional media	Relationship management, proactive provision of information, crisis communications. Qualitative survey (every two years).	Information, positioning	All stakeholders
Civil society organisations	Natuur en Milieu Nudge Stichting de Opkikker Nederland Cares	Consultation and dialogue about project design, volunteer work (projects, ad hoc)	Facilitate renewable energy supply	Customers
	Housing associations, property developers and businesses	Discussions, participation in associations and foundations (frequent)	Participation, Dialogue and relationship management	Customers
Partnerships	Amsterdam Economic Board, Arnhem-Nijmegen Economic Board European Energy-Information Sharing & Analysis Centre Foundation rural energy services Global Gasnetwork Initiative Global Intelligent Utility Network coalition Global Smart City & Community Coalition Global Reporting Initiative Groene Zaak Kenniskring Amsterdam Hier Klimaatverbond Nederland Milieu Centraal MVO Nederland Nederlandse vereniging duurzame energie Open compliance and ethics group Smart Energy Collective Stichting de Energiebank Stichting USEF The Open Global Data Management Community Urgenda Vereniging Eigen Huis Vereniging Nederlandse Gemeenten Woman Capital World Economic Forum	Board membership, meetings, sponsoring, strategic partnerships	Collaboration with knowledge institutions, businesses and authorities, sustainability promotion, new models for innovation and societal development	Customers

SWOT

Alliander is an attractive employer, and is active as a sustainable partner in the energy market. We see opportunities in partnerships at local as well as regional level. It was partly with this in mind that we also intensified our relationships with the municipal authorities in our service area in 2016. We are working jointly on the energy issues of today and tomorrow. In implementing our strategy we encounter a number of challenges within our organisation, such as the shortage of staff with the right technical qualifications, so we have initiated a massive recruitment campaign to find enough people capable of doing the work required. We also recognise that we cannot act too quickly when it comes to things like customer queries. In this regard, our efforts are geared to operational excellence. Another thing is that our CO₂ emissions are high, partly due to the grid losses inherent in energy distribution. On a large number of activities, we aim to be carbon-neutral by 2023. Finally, there are the inevitable threats as well, such as the unpredictability of the energy transition and the speed at which it is likely to occur, cybercrime and a changing regulatory environment. These threats and what we are doing to address them are described in greater detail in the risk information.



Strengths

- High reliability of energy supply
- Solid financial position
- Good employment practices
- Sustainable partner



Weaknesses

- Availability of technical skills in labour market
- Limited adaptability of business processes
- High CO₂ emissions related to energy transmission



Opportunities

- Investment in digitisation
- Cooperation at local and regional level
- Investment in new activities and start-ups such as sustainable area development



Threats

- Operationalisation of energy transition
- Cybercrime and violation of privacy energy data
- Insufficient long-term regulatory focus
- Recruiting, developing and retaining required competences in the future

Most important impact measurement

Most important criteria

The impacts were classified using the value creation model of the International Integrated Reporting Council (IIRC), which subdivides impacts into six types of capital: Financial, Manufactured, Intellectual, Natural, Social & Relationship and Human Capital. We have currently quantified Financial, Manufactured, Natural and Human Capital. In the coming period we will continue to develop processes for quantifying the other types of capital.

The relevant impacts that we have identified are reported as fully as possible.

Impacts are quantified in terms of money (euros) by estimating the sum of the individual impacts on wealth and well-being. Wealth is broadly defined to include all the most relevant impacts on wealth that we have identified. This broad definition also refers to the wealth of people today and later, both in the Netherlands and abroad.

The methods used to calculate the impacts are based on techniques that are commonly applied in scientific and social practice, including the Natural Capital Protocol of the NCC (2016), the Environmental management - Life cycle assessment - Principles and framework ISO (2010) and the General Guidance for Social Cost-Benefit analysis of the CPB. As indicated, further details are available online.

Since Alliander operates in a regulated market and forms part of a broader value chain, impacts are attributed to Alliander based on the attribution method described below.

The wealth effects are conservatively estimated where a choice must be made between various equally reasonable assumptions. Two assumptions are equally reasonable if they are equally acceptable on the basis of the applied criteria and scientific practice and are equally plausible in the eyes of experts. This means that if several equally reasonable assumptions are possible, the assumption resulting in the lowest estimated wealth impact is chosen.

Most important reporting criteria, principles and assumptions

Main principles and assumptions

Attribution

Impacts that are caused by multiple players in the supply chain are attributed to Alliander on the basis of its gross added value in the supply chain. The gross added value is calculated as revenue less goods and services used in production, valued at purchase price.

Impacts that Alliander realises independently are entirely attributed to Alliander.

For comparison purposes, the attribution value from 2017 is also applied for the 2016 impact.

Financial capital

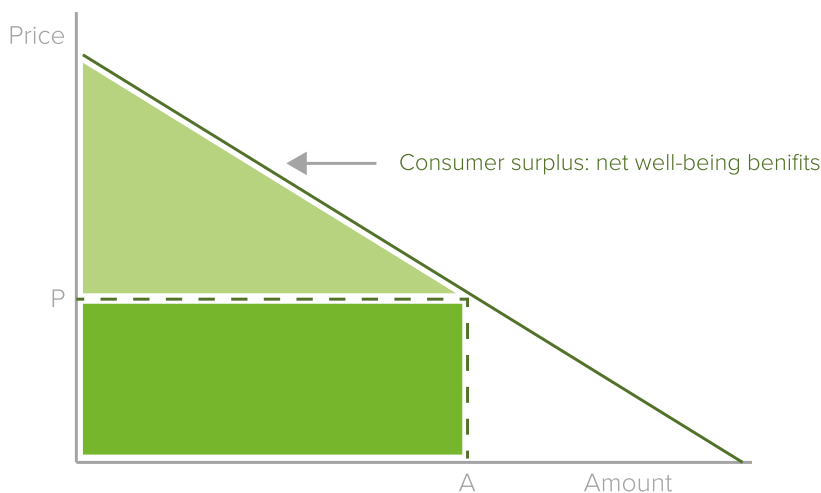
The financial impacts are viewed from the perspective of cash flows to and from society: cash outflows from Alliander are positive impacts for society; Alliander's cash inflows are negative impacts for society.

Manufactured capital

The wealth value of energy transmission is calculated on the basis of the consumer surplus. This is the extra value that customers are in theory prepared to pay on top of the regulated price for a service or product. The consumer surplus is currently the most common method for determining economic value, both for liberalised and regulated markets. The consumer surplus relates to all price elements in the energy value chain, including the taxes and prices for the supply and transmission of energy. The amounts presented as manufactured capital indicate the economic part of the energy value chain that is attributable to Alliander. The average impact of gas and power failures for the Netherlands is included in this estimate as the price elasticity is based on the actual demand for energy (including failures). The specific impact of gas and electricity failures was relatively limited for Alliander in 2016 and was therefore excluded.

In the adopted economic model, price elasticity assumptions were made. The gas and electricity price elasticity curve is assumed to be linear. This produces a conservative estimate of the consumer surplus, which is visualised in the figure below.

Demand for electricity



- External component: the net well-being value of electricity transport on top of the price that households pay
- Internal component: the part of the value for which households compensate Alliander in the form of revenue

The slope of the curve that has an impact on the consumer surplus was determined on the basis of a study by CE Delft (2012).

In order to avoid double counting, the contribution of energy transmission to the wealth of business customers consists exclusively of the revenue component, without adding the producer surplus of customers.

Natural capital

Alliander is partly responsible for the CO₂ emissions from the quantities of electricity and gas transported through its network. The impact includes the measurement of the CO₂ emissions associated with the direct operations and those of the chain. Emissions in the chain are attributed to Alliander on the basis of gross added value.

Alliander's electricity mix ratio (comprising oil, gas coal and nuclear power) is assumed to be equal to the national electricity mix.

The social costs of a tonne of CO₂-eq are estimated on the basis of a study of the U.S. Inter-Agency Working Group of the EPA (2013). This study is in our view still relevant because most climate change effects have yet to take place. This means that the costs of a tonne of CO₂-eq have not changed between 2013 and 2016.

Human capital

Only staff in the direct employ of Alliander are included in the calculation of this type of capital.

Well-being impacts of having work were calculated relative to not having work in the Netherlands. The indicator exclusively concerns the non-financial direct well-being impact. It is assumed here that work satisfaction has a direct positive impact on well-being.

It is also assumed that non-work related absenteeism has no connection with the work at Alliander. The calculation of the impacts of work-related absence and accidents of employees (safety) is limited to direct effects. An accident or illness may be the underlying cause of other accidents or illnesses, but this is not measured here.

Comparative figures for impacts from 2017 and 2016

For comparison purposes, the 2016 figures have been restated using the 2017 attribution values.

Financial capital

€ million	2017	2016
Payments to suppliers	-1,007	-1,049
Dividends, repayments and interest	-72	-298
Payments to employees	-636	-585
Tax	-199	-242
Reduction in cash reserves	-211	-41
Contributions from third parties	96	99
Receipts from participating interests	232	258
Costs to customers (business)	460	431
Income from asset swap	0	359
Raised capital, received repayments and interest	189	45
Costs to customers (residential)	1,148	1,023

Produced capital

€ million	2017	2016
Value of goods purchased for electricity transmission	-1,300	-1,315
Contribution of electricity transport to well-being of consumers	2,277	2,303
Value of goods purchased for gas transport	-815	-828
Contribution of gas transport to well-being of consumers	2,415	2,455
Value of goods purchased by business customers	-274	-258
Value of energy transport - business customers	510	477

Natural capital

€ million	2017	2016
Climate change due to CO ₂ emissions	-341	-363

Five-year summary

€ million	2017	2016	2015	2014	2013
Result					
Revenue	1,697	1,584	1,540	1,594	1,744
Total income	1,840	1,723	1,680	1,729	1,846
Total operating expenses	-1,535	-1,516	-1,341	-1,245	-1,389
Operating profit	305	207	339	484	457
Profit after tax	203	282	235	323	288
Balance sheet					
Net working capital	-87	-145	-211	-172	-94
Property, plant and equipment	6,793	6,529	5,899	6,218	6,012
Total assets	8,069	7,735	7,726	7,672	7,548
Equity	3,942	3,864	3,687	3,579	3,375
Total interest-bearing debt	1,784	1,564	1,668	1,775	1,895
Total financing	5,726	5,428	5,355	5,354	5,270
Capital expenditure on non-current assets	652	685	577	572	575
Cash flows					
Cash flow from operating activities	454	376	513	623	683
Cash flow from investing activities	-549	-232	-492	-410	-493
Cash flow from financing activities	148	-185	-99	-201	-135
Free cash flow	-95	144	21	213	190
Ratios					
Non-current interest-bearing debt as % of total interest-bearing debt	87%	95%	72%	91%	85%
ROIC	4.6%	3.5%	4.9%	6.3%	7.6%
FFO/Net debt	27.4%	26.6%	28.1%	34.0%	38.7%
Interest cover	10.2	8.3	7.6	7.6	8.0
Solvency	56.7%	58.5%	55.7%	53.6%	51.1%
Shares (as at 31 December)					
Number of shares issued (thousand)	136,795	136,795	136,795	136,795	136,795
Total number of shares, including unissued shares (thousand)	136,795	136,795	136,795	136,795	136,795
Other					
- Electricity					
Active connections as at 31 December (x 1,000)	3,135	3,109	3,100	3,078	3,063
New connections (x 1,000)	36	37	31	26	29
Cables laid (km)	834	859	918	816	904
- Gas					
Active connections as at 31 December (x 1,000)	2,520	2,510	2,671	2,658	2,649
New connections (x 1,000)	20	21	19	18	20
Mains laid (km)	132	151	159	136	160
- Volumes transported					
Electricity (GWh)	29,960	29,990	29,882	29,936	30,314
Gas (million m ³)	6,228	6,367	6,012	6,115	7,790
- Other					
Number of disconnections (consumer and business market)	4,805	7,468	9,465	10,310	12,742
Facilitated supplier switches (x 1,000)	903	973	956	929	930
Annual electricity outage Liander (minutes)	20.9	23.3	21.9	19.9	24.0
Average number of permanent staff(fte)	5,719	5,621	5,572	5,547	5,878

Definitions & abbreviations

ACM

In April 2013, the Consumer Authority, the Dutch Competition Authority and the Independent Post and Telecommunications Authority joined forces to create a new regulator: the Authority for Consumers & Markets (ACM). As part of its remit, the ACM oversees compliance with the Electricity Act 1998 and the Gas Act.

Attribution

Attribution of the impact relative to other entities contributing to the impact (part of the value and impact model).

Community battery

A local collective solution for solar overproduction.

Cable pooling

The use of shared cables for wind and solar power feed in.

Caidi (customer average interruption duration index)

The average duration of individual power outages.

CBL (cross border lease)

A cross-border lease is a structured finance transaction by virtue of which a business sells the user rights of certain non-current assets to a foreign company, only to lease these assets back.

CO₂

Carbon dioxide. This is mainly released during the burning of fossil fuels such as natural gas and coal and contributes to the greenhouse effect.

CO₂ equivalent

The effect of greenhouse gases other than CO₂ converted into CO₂ values.

Committee of Shareholders

The Committee of Shareholders as referred to in section 158 (10) Book 2 of the Netherlands Civil Code, if this has been appointed by the General Meeting of Shareholders.

Corporate governance

The relationships between the Management Board, the Supervisory Board and the General Meeting of Shareholders. The basic principles of corporate governance are good entrepreneurship (integrity and transparency of management) and effective supervision over this (including accountability).

COSO

An international model for risk management.

Sustainable electricity equivalent

Unit of account for sustainably generated heating. The heating that is generated from sustainable sources (solar boilers, heat pumps and landfill gas projects) is converted into kWh sustainable electricity equivalents to enable aggregation of sustainably generated electricity. This is done by first calculating the CO₂ emissions that are avoided with the sustainable heating and then calculating the amount of kWh sustainably generated electricity with which the same emission reduction would have been achieved assuming 0.53 kg of avoided CO₂ emissions per kWh.

Energy transition

The transition from energy generation from fossil fuels to sustainable energy generation (e.g. from sun, wind or water).

FTE (full-time equivalent)

Equivalent of the number of employees with a full working week.

Guarantee of Origin

A Guarantee of Origin Certificate shows that electricity has been generated by a wind, hydro, solar or biomass installation.

DC (direct current) network

A network allowing DC power from renewables to be used directly without the need for an inverter to produce alternating current.

Geothermal energy

Energy derived from the heat found in the earth's crust.

Regulated domain

The activities of the network operator which arise from the tasks that are the exclusive preserve of the network operator and for which maximum tariffs are set by the ACM. This includes:

- the construction, maintenance, renewal and operation of connections to the electricity network with a load value up to 10 MVA and to the gas network;
- the construction, maintenance, renewal and operation of electricity and gas networks;
- the transportation of gas and electricity;
- the metering services for small consumers
- the effective assurance of the safety and reliability of the networks;
- the promotion of the safe use of equipment and installations that consume electricity and gas;
- the facilitation of the free market to enable customers to switch to another energy supplier, among other things.

Green bond

A debt instrument used exclusively to finance new and existing environmentally sound projects.

GRI (Global Reporting Initiative)

Global organisation that issues guidelines for CSR reporting.

Grid defection

The risk to energy utilities that the increasing availability of affordable independent power generation and storage capacity will allow growing numbers of customers to go off grid (defect), creating a vicious circle by undermining the economics and continued viability of grid operation to the financial and technical detriment of remaining grid users.

Impact

(In the context of the value and impact model) The effects of the actual outcome compared with the effects of the predetermined 'counterfactual' or reference scenario.

Smart grids

A 'smart grid' refers to electricity distribution networks in which ICT and sensor technology systems are used in substations and medium voltage transformer stations. The capacity has also been increased by raising the voltage from 10 kV to 20 kV.

LTIF (Lost Time Injury Frequency)

Number of accidents leading to absenteeism times a million divided by the number of worked hours.

Interoperability

The ability of various autonomous, heterogeneous systems to communicate and interact with each other.

Feed-in

The supply of electricity fed into the electricity grid from power generating sources.

Supply chain responsibility

A situation in which a company assumes responsibility for the entire chain involved in its activities and for the impact which these activities have in social, ecological and economic terms and renders account accordingly, including engaging in a dialogue with stakeholders. The whole process is result-driven.

Customer satisfaction

A measure of how happy customers are with the service they receive. The process of measuring customer satisfaction is based on a scoring system.

Security of supply

The ability of customers to rely on the uninterrupted supply of electricity, gas and heat, as well as uninterrupted feed-in to the grid.

m³ of gas

A cubic metre (1,000 litres) of natural gas. The average natural gas consumption per household is about 1,800 m³ per year.

Methane

A gaseous hydrocarbon, chief component of natural gas.

Microgrid

The local network of energy sources that is able to function independently of the grid.

Net debt

The sum of long- and short-term interest-bearing liabilities less cash and cash equivalents and investments.

Net investments

Capital expenditures less contributions received from third parties.

Grid losses

There are two components to grid losses or network losses: technical losses and administrative losses. Technical grid losses refers to the electrical energy that is dissipated in overcoming the inherent resistance of cables, transformers and other components in the network. Administrative grid losses refers to losses due to fraud and theft of electricity and loss of potential income due to empty properties.

NO_x

Nitrogen oxides, gases produced during the burning of fuels. These gases cause acid rain and smog.

NTA8120

The NTA (Netherlands Technical Agreement) 8120 comprises standards for the assurance of the safety of employees and the public, the protection of industrial and built-up areas and nature, the security of transport and distribution, and the efficient and optimal management of grids.

Zero energy homes

Homes that produce as much energy as they consume.

Substation

An installation in the high-voltage electricity network either linking two or more high-voltage networks or forming connections to the high-voltage network.

Output

The effects of an activity – within the context of the value and impact model – over which Alliander has some control.

PCB (polychlorinated biphenyl)

Chemical name for an organic chlorine compound with strong heat-resistant properties.

Sufferance tax

A levy charged by local authorities for the assets of utilities running either overhead or belowground across public land or water as well as surface assets.

Regulation

With respect to public utilities, the process whereby the government sets the maximum rates that network operators are permitted to charge for their services.

Remuneration Report

The Remuneration Report of the Supervisory Board concerning the remuneration policy of Alliander, as drawn up by the Selection, Appointment and Remuneration Committee of the Supervisory Board.

Result

The effects of the output – within the context of the value and impact model – translated to system level.

Saidd (System average interruption duration index)

Average interruption duration per customer.

Saifi (System average interruption frequency index)

Interruption frequency per customer

SASensor

A sensor-based control system for the faster localisation and resolution of interruptions in the grid.

Sustainable Development Goals (SDGs)

The latest United Nations goals for sustainable development of the world in the period 2015–2030.

SF6 (Sulphur hexafluoride)

An inert gas that is 5.1 times heavier than air and has a CO₂ equivalent of 22,800. SF₆ has good electrical insulating properties and is therefore frequently applied in electrical engineering, such as in medium-voltage and high-voltage units. In the case of combustion (e.g. due to an arc), toxic waste products such as S₂F₁₀ occur. Also, in the case of major leakages, there is the risk of SF₆ displacing oxygen which can lead to suffocation.

Smart meter

A smart meter enables remote reading of electricity and gas meters by network operators to obtain information on consumption and status. In addition, a smart meter can execute remote instructions. The communication with the meter takes place via the cable network (power line communication –PLC) or via GPRS.

Solvency ratio

The solvency ratio is obtained by dividing total equity including the profit for the period by total assets less the expected dividend distribution for the current year and deferred income.

Unbundling

The legal split-off on 30 June 2009 of N.V. Nuon Energy from parent company n.v. Nuon (currently Alliander N.V.), as referred to in sections 2:334a (1) and (3) of the Netherlands Civil Code. This legal split-off marked the finalisation of the unbundling prescribed by the Dutch Independent Network Operation Act between, on the one hand, the production and supply company and, on the other hand, the network company of the Nuon group, as was already organisationally implemented on 1 July 2008.

Stakeholders

Stakeholders are individuals and groups who have any form of interest in Alliander such as employees, shareholders, customers, financiers, suppliers and public authorities.

Transparency

The extent to which things can be clearly seen through something – specifically the provision of a clear view of a company's activities.

Phasing-out of gas

The gradual discontinuation of a mains gas supply and use of gas as a fuel.

Outcome

The effects of the result – within the value and impact model – on people and/or ecosystems.

VCA (Veiligheid Checklist Aannemers)

A certifiable checklist for contractors by which they can demonstrate that they are complying with health and safety standards.

VET (Voortgang Energietransitie)

Proposed Energy Transition Advancement legislation aimed at supporting and accelerating the energy transition by amending the regulations governing electricity and gas networks. The changes are partly necessary in view of the increase in intermittent power supplies (solar, wind) and feed-in from decentralised sources, which demand high standards of reliability and affordability of the systems.

Deregulated domain

The activities that are carried out in competition and/or arise from the statutory tasks and are offered at the customer's request. This includes the construction, maintenance, renewal and management of connections to the electricity network with a load of 10 MVA and above for specific customer groups, including public transport and public lighting.

Free cash flow

Cash flow from operating activities less net investments in non-current assets.

Working capital

Inventories plus trade receivables and other receivables, less short-term non-interest-bearing debt and other liabilities.

Other non-financial information

The following data and information fall outside the scope of the Assurance Report produced by the external auditors.

CO₂ and energy

This section provides a detailed review of the energy consumption by Alliander itself and the CO₂-related impacts of operations. The methodology and the conversion factors used are also described.

Energy consumption

Alliander takes 2012 as the base year for calculating the reduction in its energy consumption. This is because the targets were formulated in 2012.

Energy consumption	2017	2016
Gas and heating consumption in buildings	974,064 m ³	1,256,026 m ³
Fleet fuel consumption		
Petrol	1,248,224 Litres	1,237,807 Litres
Diesel	4,360,044 Litres	4,606,842 Litres
LPG	9,659 Litres	9,786 Litres
Electricity	204,555 kWh	136,000 kWh
Electricity consumption in buildings	9,818,143 kWh	10,456,041 kWh

Energy consumption	2017	2016	Conversion factor
Gas consumption in buildings	34,258 GJ	44,174 GJ	35.17, official energetic value of Slochteren gas
Electricity consumption in buildings	35,345 GJ	37,641 GJ	conversion factor 3.6, SI
Total energy consumption in buildings:	69,603 GJ	81,816 GJ	
Petrol:	40,442 GJ	40,105 GJ	conversion factor 32.4
Diesel:	156,090 GJ	164,925 GJ	conversion factor 35.8
LPG:	251 GJ	254 GJ	conversion factor 26
Electricity:	736 GJ	490 GJ	conversion factor 3.6
Total transport energy consumption:	197,520 GJ	205,774 GJ	
Total energy consumption:	267,123	287,590 GJ	

Scope 1 CO₂-emissions

For the purposes of the report, a uniform emissions standard is used across the sector (Scope 1). This differs from the Greenhouse Gas Protocol. The GHG Protocol figures are presented in the following table.

CO ₂ emissions	2017	2016
Gas consumption in buildings	1,838	2,366
Natural Gas Network Leakage loss	48,345	48,468
Lease & company cars:	17,650	18,373
SF6 Emissions:	1,295	907
Total	69,926	70,042

Most of the figures included in the tables and graphs in this report are taken from the underlying source systems.

Some figures, however, are derived from third-party records or reports. An example of this is the volume of waste and the level of waste-related CO₂ emissions.

Arriving at the carbon footprint and the energy consumption involves making assumptions and estimates. The calculated CO₂ coefficient uses a factor of 0.58846 (based on the national product mix in 2016 for 'grey' energy). This includes an adjustment of 2% for tank-to-wheel.

Approximately 5% of the CO₂ equivalent footprint is due to gas leakage losses, based on the mix of gas pipes in Alliander's network. The cast-iron gas mains have higher leakage losses (323 m³/km/a), which is considerably higher than the mains using PE pipe (55 m³/km/a). The CO₂ equivalent is calculated using a factor of 25 for methane.

Transport

The greatest impact which Alliander has outside the organisation itself is due to the activity of transporting energy to end-users. This accounts for the following volumes:

	2017	2016
Energy transport		
Electricity transport	29,959 GWh	29,990 GWh
Gas transport	6,228 million m ³	6,367 million m ³

Alliander's energy intensity ratio is calculated by dividing the energy consumption in gigajoules by the revenue in millions. This ratio takes into account the gas consumption of buildings, the fuel consumption of the vehicle fleet and the electricity consumption of the buildings.

	2017	2016
Energy intensity ratio		
Total energy consumption / revenue	157.4 GJ/Million € (267,123/1,697)	181.6 GJ/Million € (287,590/1,584)

This information is not available by energy type. Where Alliander is concerned, a view is obtained according to energy type for Scope 1 use; the distinction according to energy type for Alliander's own use is of a far smaller magnitude and impact and is therefore immaterial.

Green gas

The total feed-in of green gas in the area supplied by Alliander during the year was 30,493,000 m³, involving connections to 14 green gas production facilities. The term 'green gas' refers to:

- *Green gas*: Bio-SNG, biogas and landfill gas conditioned and upgraded to natural gas quality. Biogas: Gas satisfying the definition of gas as a fuel but differing in that it is a product of the fermentation or digestion process. The two main components of biogas are CH₄ and CO₂.
- *Landfill gas*: Gas satisfying the definition of gas as a fuel but differing in that it is a product of the natural processes of decay in a landfill site for waste disposal. The analysis is similar to that of biogas.
- *Bio-SNG*: SNG – substitute/synthetic natural gas – produced exclusively from biomass.

CSR organisation

Corporate Social Responsibility is a responsibility that is integral to all parts of the business and is included in the Planning & Control cycle. All the business units perform an analysis of the qualitative and quantitative impacts which their operations have on society. The Management Board has overall responsibility for the economic, ecological and social impact of Alliander. The CSR Manager personally communicates the policy to the managers of the separate entities and assists the management team in defining quantifiable parameters for monitoring progress. The Management Board and the Supervisory Board liaise with stakeholder representatives. Their presence or representation at regular and ad hoc meetings ensures an active awareness of developments and views regarding strategic topics. See the section of the report covering interaction with stakeholders for the various social concerns that have been discussed.

The Management Board and the Supervisory Board liaise with stakeholder representatives. Their presence or representation at regular and ad hoc meetings ensures an active awareness of developments and views regarding strategic topics. The results of the CSR policy are evaluated with the stakeholders. The extent to which stakeholders appreciate the policy that is pursued and the results that are achieved is gauged by such means as customer surveys, employee involvement, shareholders' meetings, roundtable meetings and the Social Report.

External assurance of the social part of the annual report

Alliander believes it important for its stakeholders to have formal assurance regarding the social part of the annual report. For the 2017 annual report, Alliander has received an unqualified assurance report affording reasonable assurance with respect to the most relevant part of the annual report, namely the more important management variables taken into account by the company (both financial and non-financial).

Alliander has also obtained reasonable assurance in relation to the material aspects of its reporting (materiality test). Additionally, Alliander has received an unqualified assurance report affording limited assurance covering the rest of the social part of the annual report. To guarantee the quality of the social information, Alliander adopts the Three Lines of Defence model. The various business units are required to submit social information gathered in connection with the stakeholder dialogue, the materiality test and GRI activities, as well as in other ways. The separate entities form the first line of defence and are responsible for supplying reliable information. The business controllers of each business unit form the second line of defence and ensure that their business submits its information reliably and on time. The business controllers check such things as the basis of the information and the analysis of it by the business itself and prepares a file for the verification carried out by the internal audit department. The internal audit department forms the third line of defence, verifying the social information before it is reviewed by the external auditors. The external auditors form the final link in the verification process and provide ultimate assurance, as expressed in the report.

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