Alliander N.V.
Half-Year Report 2019

Disclaimer

This report is a translation of the Dutch half-year report 2019 of Alliander N.V. Although this translation has been prepared with the utmost care, deviations from the Dutch half-year report may nevertheless occur, such that the information in this report may be misinterpreted or different conclusions may be drawn. In such cases, the Dutch half-year report 2019 will prevail.

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

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

This report has been prepared using the accounting policies applied in the preparation of the 2018 financial statements of Alliander N.V. which can be found on www.alliander.com.

This report has not been audited.

Contents

Profile

Alliander is a network company. We are working on a future-proof energy network covering a large part of the Netherlands, driven by the social importance of keeping energy reliable, affordable and accessible for everyone. With our knowledge and skills, we are helping the Netherlands make the right choices in the energy transition. Our shares are owned by municipalities and provinces.

Alliander is made up of various business units, including Liander, Qirion, Kenter and Firan. Together, we make sure the lights are on, homes are heated and businesses can keep operating. Network operator Liander has been legally tasked with managing and further developing the gas and electricity grid for 3.3 million consumers. We also sell products and provide services that help create a future-proof energy network. Qirion, for example, focuses on the construction and maintenance of intelligent energy infrastructures. Firan develops, builds and manages alternative energy infrastructures, such as district heating and biogas networks. And Kenter supplies innovative energy metering and management solutions.

We are building and maintaining the infrastructure, and we manage energy flows. We track who produces or consumes energy when, where and how much, enabling transparent transactions between producers and consumers. We are on hand 24/7 to deal with outages, because without energy, everything comes to a standstill.

We show the possibilities of the energy network and are clear on the social expenditure involved in different choices. With a workforce of over 7,000 highly skilled specialists, we come up with and implement innovative solutions for the future-proofing of the energy network. Sustainability plays a key role in the choices we make. This is how we are working together on an energy network that is right for everyone.

Mission and strategy

Mission

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

Strategy

Alliander is working on four strategic pillars to meet the effects of the energy transition:

Supporting customers in making choices that work for them as well as for the energy system as a whole.

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

New open networks

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

Digitisation

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

Excellent network management is the basis

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

Objectives and results

Safety

Objectives	Results 30 June 2019	Objectives ultimo 2019	Results 31 December 2018
LTIF (lost time injury frequency)	1.2	-[1]	1.4

Customers

Objectives	Results 30 June 2019	Objectives ultimo 2019	Results 31 December 2018
Net effort score	Consumer market 53.1% Business market 32.6%	Net effort score is higher than 50.0% (consumer market) and 40.0% (business market)	Consumer market 50.3% Business market 37.9%
Electricity outage duration (in minutes)	23.5	Maximum of 22	30.6
The number of unique cable numbers with more than five interruptions	8	Maximum of 17	17
Offer smart meter	365,000	Minimum of 585,000 addresses Target 30th of June 2018: 299,000	644,000

Employees

Objectives	Results 30 June 2019	Objectives ultimo 2019	Results 31 December 2018
Employee survey score[2]	-	Minimum of 75	70
Employee absenteeism	4.3%	Maximum of 4.3%	4.7%
Women in leadership positions	28.1%	Minimum of 29.3%	28.8%
People at a distance from the labour market	40	Minium of 100 Target 30th of June 2019: 50	95

Shareholders and investors

Objectives	Results 30 June 2019	Objectives ultimo 2019	Results 31 December 2018
Retention of solid rating	S&P: AA-/ A-1+/stable outlook Moody's: Aa2/ P-1/stable outlook	Maintain solid A rating profile	S&P: AA-/ A-1+/stable outlook Moody's: Aa2/ P-1/stable outlook
Financial policy[3]			
FFO/net debt	28.3%	> 20%	32.2%
Interest cover	13.4	> 3.5	12.9
Net debt / (net debt + equity)	36.8%	< 60%	33.8%
Solvency	53.7%	> 30%	57.3%
Sustainability			
CO_2 emissions from business operations[4]	129 kton	Maximum of 277 kton Target 30th of June 2019: 137 kton	288 kton
Circularity	20.7%	Minimum of 25.0% Target 30th of june 2019: 20.7%	16.5%

1 No target is set for the LTIF KPI. This is because the aim is to have zero accidents resulting in time off work.
2 The survey is carried out once a year and the score will be reported in the second half of 2019.
3 The financial framework within which Alliander operates is based on four ratios. These ratios are calculated according to the principles of our financial policy. These principles differ in two respects from the classification according to IFRS: 1. Under IFRS the subordinated perpetual bond loan is recognised as equity whereas, according to the principles of our financial policy, this instrument is treated as 50% borrowed capital and 50% equity. 2. The funds from operations (FFO)/net debt ratio is the 12-month profit after tax adjusted for deferred tax movements and incidental items and fair value movements plus depreciation of property, plant and equipment and amortisation of intangible assets and accrued income, as a percentage of net debt. The interest cover ratio concerns the 12month profit after tax, adjusted for the movements in the deferred tax assets and liabilities, for the incidental items and fair value movements, plus the depreciation and amortisation of property plant and equipment and intangible assets and the net amount of finance income and expense, divided by net finance income and expense adjusted for incidental items and fair value movements. The solvency ratio is obtained by dividing total equity including the profit for the period by total assets less the expected dividend distribution for the current year and deferred income.
4 The CO_2 emissions target for 2019 has been recalculated using the most recent emission factors.

Financial key figures

€ million, unless stated otherwise	1st half 2019	1st half 2018
Revenue	952	952
Other income	19	121
Operating expenses	785	780
Operating profit	186	293
Profit after tax	121	227
Profit after tax excluding incidental items and fair value movements	122	125
Investments in property, plant and equipment	402	345
Cash flow from operating activities	249	266
	30 June 2019	**31 December 2018**
Total assets	8,819	8,345
Total equity	4,093	4,129
Net debt[1]	2,203	1,907
ROIC[2]	5.2%	5.4%

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

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

Report of the Management Board

Alliander posted a profit after tax of € 121 million in the first half of 2019 (2018: € 227 million, which includes the sale of Allego for € 106 million). Compared to the first half of 2018, Alliander has stepped up its investments by 17%, partly as a result of increasing demand for connections for solar farms and wind turbines. Alliander has, furthermore, taken new steps with innovations to make the existing infrastructure more efficient.

Major challenge

The Netherlands possesses one of the world's most reliable electricity grids. At 99.996%, our network's reliability of supply remained high in the first half of 2019, and there were no major outages. Alliander has a social responsibility to keep supply reliability at this high level. With the economy continuing to grow, the energy transition picking up steam, and the Dutch government presenting its Climate Agreement, we are facing a major challenge in adapting the networks to all these changes. This requires both investment and innovation that will help to keep the energy supply affordable, reliable and accessible for everyone. Through innovation, Alliander prevents scarce technicians having to do even more work, as well as unnecessary network investments.

Network investments

In numerous areas, Alliander is working on reinforcing and expanding the network. Besides rolling out new and heavier-duty cables, we are building new electrical substations and expanding existing ones. In Borculo and De Weel, for example, we have invested millions of euros in additional transformers over the past months.

Innovations

Wherever possible, Alliander uses innovations and smart solutions to prevent extra work on the networks for scarce technicians. Over the past six months, Alliander has been working on various solutions to, among other things, feed sustainably produced electricity into the electricity grid faster. For example, Alliander is using spare electricity grid capacity (known as the emergency capacity) for new solar farms. We are also currently running tests to install software at solar farms that will prevent overloading of the electricity grid, which will make it possible to connect solar farms in areas with limited grid capacity.

Heating transition

By 2020, all provinces and municipalities in the Netherlands must have a Regional Energy Strategy (RES) in place, specifying things such as how they intend to wean entire districts off natural gas. In this context, Alliander is actively seeking to team up with public authorities, housing corporations and other parties in planning the best long-term energy supply for each district. Only this kind of long-term approach will enable us to realise the energy transition in good time and without unnecessary social expenditure. In October 2018, a number of municipal authorities joined the Dutch government's Aardgasvrije Wijken ('Natural Gas-Free Districts') programme. These districts are used as 'test beds' where municipal authorities and Alliander gain experience in switching whole districts from natural gas to a renewable alternative.

Everyone safely home

In working on the energy supply, safety comes first, both for our customers and for our workforce and contractors. In the first half of 2019, there were 24 incidents, 7 of which led to time off.

Other developments

Composition of the Management Board

As the energy transition, new technology and digitalisation are accelerating and having an ever greater impact, we need additional focus in how we run the company. With this in mind, Daan Schut joined Alliander's Management Board on 1 April to take on the new Chief Transition Officer (CTO) role. Walter Bien is set to join the Management Board as of 7 October, succeeding Mark van Lieshout, who stepped down as Alliander's CFO on 1 March.

Second green bond issue

In June, Alliander issued a green bond with a value of € 300 million. It was our second green bond, after the first one in 2016. Proceeds from the issue of this green bond will be used to invest in the smart meter, and in the 'fair meter' in particular. The fair meter is the result of a joint venture of network operator Liander and several parties from across the industry, aimed at making the smart meter more sustainable.

Investments

Alliander's investments totalled € 402 million in the first half of 2019 (2018: € 345 million). The investment in electricity grids totalled € 231 million (2018: € 174 million), while the investment in the gas grids totalled € 60 million (2018: € 66 million). At € 142 million, maintenance costs in the first half of 2019 were lower than in the same period last year (€ 144 million).

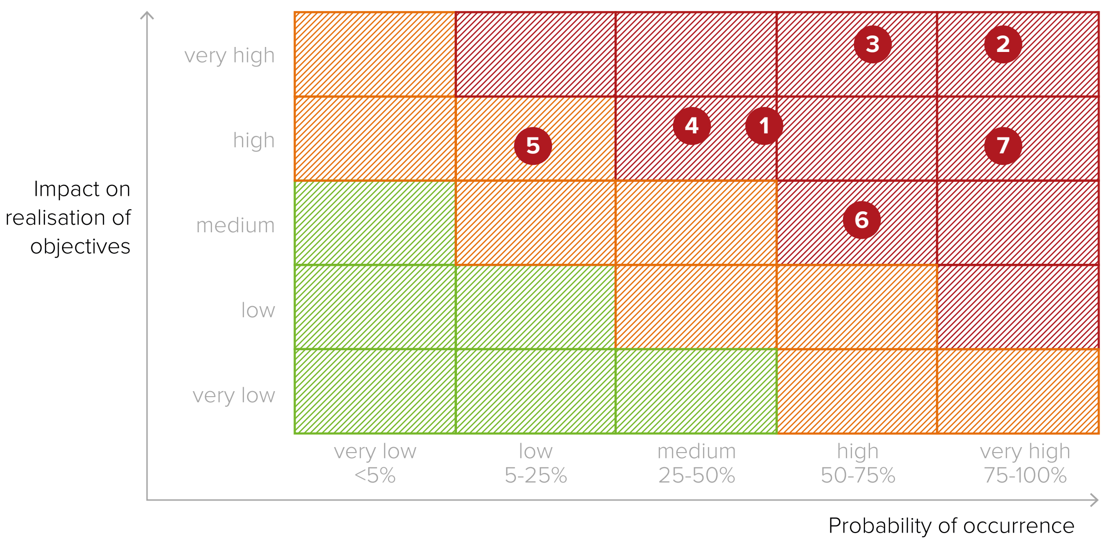
€ million	Realised until June 2019	Realised until June 2018	Target at year-end 2019	Realised 2018
Electricity	231	174	443	397
Gas	60	66	149	129
Metering devices	71	66	143	137
Other	40	39	108	68
Total investments	**402**	**345**	**843**	**731**
Maintenance costs	142	144	297	283
Total maintenance costs and investments	**544**	**489**	**1140**	**1014**
Number of addresses smart meters offered	365,000	323,000	585,000	644,000

Risk Management

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

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

1 Safety →
2 Completion 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 ↑



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

Decreasing: ↓
Neutral: →
Increasing: ↑

Safety ➜

What is the risk?

As a network company, we are responsible for the regional distribution of energy, such as electricity, natural gas, biogas and heating. These activities involve health and safety risks for our employees, contractors, customers and surroundings. Insufficient (knowledge of) safe working instructions, quality assurance, safety requirements and safety awareness heighten the risk of accidents. The activities of third parties working on Alliander’s behalf can also lead to safety risks.

How is it managed?

Our safety efforts are focused on ensuring network safety, maintaining safe working practices and boosting safety awareness. We assure the safety of our networks by making the mitigation of safety risks an integral part of our network maintenance and replacement planning.

Safe working practices in network maintenance are shaped through training and instruction for colleagues working on assets, as well as by making sure they always have the required personal protective equipment. Finally, our efforts in boosting safety awareness involve making safe working practices a constant topic of conversation in the workplace and in learning from incidents, with the aim being to make safety an inherent part of our mindset and actions at work.

Completion of work package ➜

What is the risk?

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

How is it managed?

We are working on reducing capacity shortages by focusing on three aspects. First of all, we are trying to prevent extra work through targeted use of innovations. Secondly, we are raising productivity by simplifying the work, organising and scheduling it better, and by identifying critical job categories and outsourcing work in its entirety. Last but not least, we use effective communication and consultation with our stakeholders to manage expectations with respect to our ability to complete all or part of our work package.

Insufficient long-term regulatory focus ➜

What is the risk?

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

How is it managed?

We are building a long-term relationship with the legislator and the industry regulator, which includes ongoing dialogue on the developments that affect Alliander and possible bottlenecks in practice. In addition, we actively make proposals for required adjustments to national and European laws and regulations. We paint a clear picture of what is necessary for the adequate fulfilment of the network operator’s responsibilities in the energy transition, while always liaising with the relevant stakeholders. We also seek official backing for a fitting role for our company in areas such as heating and the transmission, distribution and metering of renewable gases.

Cybercrime →

What is the risk?

Our energy networks and above-ground installations are increasingly being digitised. Cyberattacks with a political or terrorist motive are increasingly targeting vital infrastructure. Alliander must respond proactively to the rise of and changes in cybercrime. This is how we can prevent a successful attack on our digitised networks from jeopardising the continuity of our services. For this reason, we are continuing to take above-average measures to protect and safeguard vital infrastructure.

How is it 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. Alliander's security function is being further expanded. We are also intensively addressing this issue together with other network operators within Netbeheer Nederland and maintain close contacts with the Dutch National Cyber Security Centre and other parties. Together, we can keep up with rapidly-evolving developments and pick up external signals of attacks at an early stage.

Privacy of energy data →

What is the risk?

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

How is it managed?

We work closely with the other parties in the energy sector to ensure the effective protection of privacy-sensitive data. Information is exchanged with the regulators, the Netherlands Authority for Consumers & Markets (ACM), the Dutch Data Protection Authority (DPA), industry organisations (Netbeheer Nederland and Energie-Nederland (ENL)) and other relevant parties. Within its own organisation, Alliander has taken various initiatives to shield confidential data more effectively. One example is the Alliander Code of Conduct, which specifies how employees are to handle confidential information. Aside from that, we have appointed a Data Protection Officer and set up an email address for the disclosure of data breaches, so as to ensure any data breaches can be reported to the Dutch Data Protection Authority in good time.

Finally, Alliander is committed to protecting the privacy of energy data collected as part of processes subcontracted to Energie Data Services Nederland (EDSN). One specific example of these efforts is the use of a Privacy Assurance Statement for privacy-sensitive processes that have been outsourced.

Required capacity and competences →

What is the risk?

One of the main challenges for Alliander in our rapidly changing environment is to recruit and retain the right staff, especially staff for critical jobs and IT positions.

How is it managed?

Our labour market efforts and campaigns are fully targeted at scarce groups. Where possible, we also approach less obvious groups, such as lateral hires, people with reskilling potential and international candidates. 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. To raise Alliander's profile for the long term, we have joined initiatives by key stakeholders such as Techniekpact. We have also teamed up with external partners and supply chain parties to train people, so that people with the right professional experience and potential will find it easy to continue their careers at Alliander.

Anticipating and keeping up with the energy transition ↑

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

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

Legal proceedings and claims

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

Liander is involved in various proceedings relating to completing connections within the 18-week term, the limited transmission capacity and the practice of splitting up single solar farms. Liander is also involved in sufferance tax disputes with a number of municipal authorities, whereby Liander could potentially be reclaiming an amount of € 1 million. However, given the uncertainties, these receivables have not been recognised in the balance sheet as at 30 June 2019.

Financial performance

General

Profit after tax over the first half of 2019 was down € 106 million on the corresponding period in 2018 and came in at € 121 million. This drop in profit is due mainly to the book profit on the sale of Allego in 2018. In the first half of 2018, a book profit of € 106 million was recognised, which was adjusted down to € 105 million based on the final settlement at the end of 2018. Without taking this book profit into account, operating profit for the first half of 2019 is on a par with the same period last year.

Profit from continuing operations excluding incidental items and fair value movements was € 122 million, which is € 2 million down on the corresponding period in 2018. The net debt position has risen by € 296 million to € 2,203 million (31 December 2018: € 1,907 million). This increase is explained by lower cash flow from operating activities in relation to investments combined with the dividend payment of € 150 million and recognition of € 59 million in lease liabilities as a result of implementation of IFRS 16 as of 1 January 2019. The solvency ratio as at the end of the first half of 2019 was 53.7% (31 December 2018: 57.3%).

Income statement

Operating income

Total operating income was down € 102 million on last year. This drop in revenue is due mainly to the aforementioned book profit on the sale of Allego in 2018 (€ 106 million). Regulated revenue from electricity and gas was just under € 12 million down on 2018. Although the number of connections is still growing for electricity, the lower regulated tariffs have led to a drop in revenue. Revenue from metering services, however, has benefited from a rise in regulated tariffs.

Operating expenses

Total operating expenses in the first half of 2019 came in at € 785 million (first half of 2018: € 780 million). The increase of € 5 million in operating expenses was chiefly caused by the following:

- Purchase costs were up € 7 million due to the growth of the work package combined with increases in material costs and fees charged by contractors.
- Sufferance tax was up € 3 million, primarily due to additional tax bills from municipal authorities in the former FNOP area.
- Depreciation rose € 22 million compared to 2018 as a result of, among other things, implementation of IFRS 16 (€ 9 million) and incidental depreciation. Aside from that, the higher investment levels have led to an increase in depreciation charges.

This is partly offset by the following:

- Costs of insourced staff were down € 16 million.
- Own work capitalised is up € 9 million on 2018. This increase in production comes as a result of the increasing level of activity combined with higher tariffs that lead to higher capitalisation.

Finance income and expenses

Finance income and expenses in the first half of 2019 resulted in a net expense of € 22 million (first half of 2018: € 21 million).

Result from associates and joint ventures

The result from associates and joint ventures for the first half of 2019 was negative, coming in at minus € 1 million (first half of 2018: nil).

Tax

The effective tax burden (the tax burden expressed as a percentage of profit before tax excluding the profit/loss after tax from associates and joint ventures) came in at 25.8% in the first half of 2019 (first half of 2018: 16%). The greater tax burden in 2019 compared to the nominal tax burden is mainly explained by the tax losses of entities outside the Netherlands, which have not been recognised.
The low tax burden in 2018 was due to the book profit on the sale of Allego, which qualified for the substantial-holding privilege.

Incidental items and fair value movements

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

Reported figures and figures excluding incidental items and fair value movements

	1st half					
€ million	Reported		Incidental items and fair value movements		Excluding incidental items and fair value movements	
	2019	2018	2019	2018	2019	2018
Revenue	952	952	-	-	952	952
Other income	19	121	-	106	19	15
Total purchase costs, costs of subcontracted work and operating expenses	-693	-701	-2	-5	-691	-696
Depreciation and impairments	-220	-198	-	-	-220	-198
Own work capitalised	128	119	-	-	128	119
Operating profit (EBIT)	**186**	**293**	**-2**	**101**	**188**	**192**
Finance income/(expense)	-22	-21	-	-	-22	-21
Result from associates and joint ventures	-1	-	-	-	-1	-
Profit before tax	**163**	**272**	**-2**	**101**	**165**	**171**
Tax	-42	-45	1	1	-43	-46
Profit after tax from continuing operations	121	227	-1	102	122	125
Profit after tax	121	227	-1	102	122	125

Notes to incidental items

The exceptional expense in the purchase costs, costs of subcontracted work and operating expenses in the first half of 2019 came in at € 2 million and relates to reorganisation costs (2018: € 5 million).

The exceptional income in the first half of 2018 (€ 106 million) came on the back of the sale of Allego. At the end of 2018, the book profit was set at € 105 million based on the final settlement.

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

Segments result

Alliander distinguishes the following reporting segments in 2019:

- Network operator Liander
- Other

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

The operating profit for the Liander segment in the first half of 2019 totalled € 196 million, a drop of € 23 million compared to the first half of 2018, due partly to increased sufferance tax and depreciation. The Other segment (mainly comprising unregulated activities, corporate staff departments and service units) posted an operating loss of € 8 million (first half of 2018: loss of € 27 million). In accordance with Alliander's policy, around 3% of the total annual revenue will be invested in innovation and new activities in the field of the energy transition and sustainability.

Cash flow

Cash flow from operating activities

Cash flow from operating activities in the first half of 2019 was € 249 million (first half of 2018: € 266 million). This € 17 million drop was caused primarily by an increase in prepaid income tax.

Cash flow from investing activities

Cash flow from investing activities in the first half of 2019 was negative, coming in at minus € 344 million (first half of 2018: minus € 185 million). This difference is due mainly to the sale of Allego in 2018 and the higher level of investment in the first half of 2019. Investments in property, plant and equipment in the first half of 2019 totalled € 402 million (first half of 2018: € 345 million).

Investments in property, plant and equipment

	1st half	
€ million	2019	2018
Electricity regulated	231	174
Gas regulated	60	66
Metering devices	70	66
Buildings, ICT etc.	41	39
Total	402	345

Cash flow from financing activities

Cash flow from financing activities in the first half of 2019 was a cash inflow of € 84 million, compared with an inflow of € 95 million in the corresponding period in 2018. Cash inflow in the first half of 2019 came primarily from loans acquired totalling € 446 million (€ 296 million in a green bond loan and € 150 million in borrowing under the ECP programme), less an increase in dividend paid and short-term deposits granted (totalling € 350 million).

Financing and credit rating

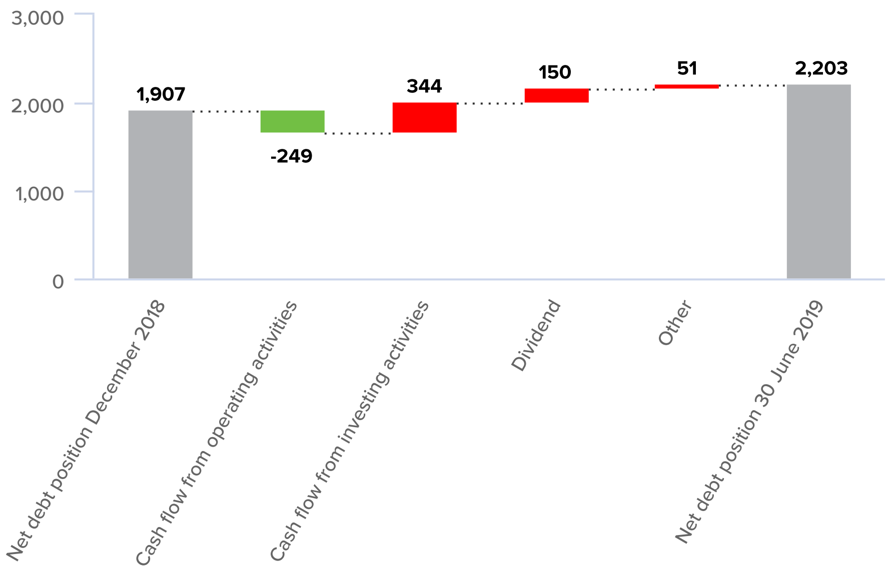
Financial policy

Alliander's financial policy is aimed at achieving a balance between protecting bond holders and other providers of borrowed capital and maintaining an adequate shareholders' return, while preserving the necessary flexibility to enable the company to grow and invest. The financial framework within which Alliander operates is based on the four ratios presented in the targets and results under the financial policy. As at 30 June 2019, all four ratios satisfied the standards set.

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

Net debt position and financing

The net debt position as at 30 June 2019, based on IFRS, amounted to € 1,955 million (31 December 2018: € 1,659 million) and, based on Alliander's financial policy, € 2,203 million (31 December 2018: € 1,907 million). When calculating the ratios, the subordinated perpetual bond loan issued in 2018 is treated as 50% equity and 50% debt. This € 296 million increase is explained mainly by reduced cash flow from operating activities in relation to investments combined with dividend of € 150 million paid in 2019 and recognition of € 59 million in lease liabilities as a result of the implementation of IFRS 16.



Reconciliation of net debt position

€ million	30 June 2019		31 December 2018	
Long-term interest-bearing debt	1,765		1,475	
Short-term interest-bearing debt	475		321	
Lease liabilities	201		159	
Gross debt		2,441		1,955
Cash and cash equivalents	129		140	
Current financial assets	200		-	
Investments in bonds	157		156	
Total cash and cash equivalents and investments		486		296
Net debt in accordance with the annual financial statements (IFRS)		1,955		1,659
50% of the subordinated perpetual bond		248		248
Net debt on the basis of Alliander's financial policy		2,203		1,907

Credit facilities

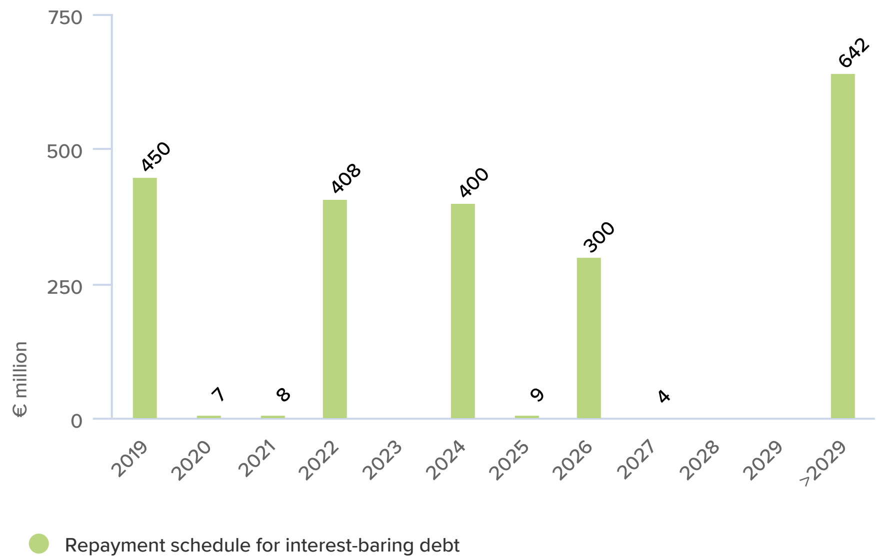
On 17 June 2019, Alliander issued green bonds with a nominal value of € 300 million and a tenor of 13 years. Bonds were issued at a price of 98.628% and a coupon rate of 0.875%. Proceeds from the issue of green bonds were used to refinance investments in the smart meter, and in the Fair Meter in particular. The fair meter is the result of a joint venture of network operator Liander and several parties from across the industry, aimed at making the smart meter more sustainable. In developing a new and sustainable meter, the parties have looked at the sustainability and origins of materials used, the meter's circularity and working conditions across the production chain, including the exclusion of child labour. It is the second green bond that Alliander has issued. The first was issued in 2016 to refinance smart networks (including smart meters) and a sustainable new building in Duiven.

In line with Alliander's risk management policy, Alliander has taken measures to mitigate the interest rate risk attached to the new EMTN financing of € 300 million. For this purpose, two forward starting interest rate swaps were entered into in the run-up to the bond issue. When the bond loan was issued, both the interest rate swaps were settled. As a result, the interest rate risk was mitigated to a large degree in the run-up to the bond issue. The loss on the settlement totalling € 3 million has, after deducting deferred tax, been recognised in the hedge reserve in equity. The resulting hedge reserve will be released in the income statement over the term of the EMTN (up to 24 June 2032).

As at the end of June 2019, Alliander has at its disposal a revolving credit facility (RCF) for a total amount of € 600 million, running until the end of July 2023. The RCF had not been drawn upon as at 30 June 2019 (unchanged from 31 December 2018). Aside from that, Alliander has an EMTN programme of € 3 billion under which notes to a value of € 1.7 billion were in issue as at 30 June 2019 (as at 31 December 2018: € 1.4 billion), and an ECP programme of € 1.5 billion, under which short-term commercial paper to a value of € 150 million was in issue as at 30 June 2019 (as at 31 December 2018: nil).

Repayments in the first half of 2019 related primarily to ECP and other loans. The repayment obligations in the years ahead are mainly connected with the bond loans under the EMTN programme.

Repayment schedule for interest-bearing debt



Statement by the Management Board

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

1. The consolidated half-year financial statements for 2019 provide a true and fair view of the assets, liabilities, financial position and profit of Alliander N.V. and its consolidated group companies; and
2. The report by the Management Board presents a true and fair account of the state of affairs as at balance sheet date, the main events during the half-year and details of the principal risks and uncertainties for the remaining six months of 2019 for Alliander N.V. and its consolidated group companies

Arnhem, 24 July 2019

Management board

Ingrid Thijssen, CEO
Daan Schut, CTO

Condensed consolidated half-year results 2019

Consolidated income statement

€ million	1st half 2019		2018	
Revenue	952		952	
Other Income	19		121	
Total income		971		1,073
Operating expenses				
Purchase costs and costs of subcontracted work	-217		-210	
Employee benefit expenses	-254		-253	
External personnel expenses	-60		-76	
Other operating expenses	-162		-162	
Total purchase costs, costs of subcontracted work and operating expenses	-693		-701	
Depreciation and impairment of property, plant and equipment	-220		-198	
Less: Own work capitalised	128		119	
Total operating expenses		-785		-780
Operating profit		186		293
Finance income		6		7
Finance expense		-28		-28
Result from associates and joint ventures after tax		-1		-
Profit before tax from continuing operations		163		272
Tax		-42		-45
Profit after tax		121		227

Consolidated statement of comprehensive income

€ million	1st half 2019	2018
Profit after tax	121	227
Other elements comprehensive income		
Elements that are settled through the income statement		
Change in cash flow hedge reserve	-2	-
Comprehensive income	119	227

Consolidated balance sheet

€ million	30 June 2019		31 December 2018	
Non-current assets				
Property, plant and equipment	7,323		7,072	
Intangible assets	314		315	
Investments in bonds	3		4	
Available-for-sale financial assets	157		156	
Other financial assets	69		71	
Deferred tax assets	161		172	
		8,027		7,790
Current assets				
Inventories	62		66	
Trade and other receivables	350		322	
Corporate tax	51		27	
Other financial assets	200		-	
Cash and cash equivalents	129		140	
		792		555
Total assets		8,819		8,345
Equity & liabilities				
Equity				
Share capital	684		684	
Share premium	671		671	
Subordinated perpetual bond	495		495	
Hedge reserve	-2		-	
Other reserves	2,124		1,945	
Result for the period	121		334	
Total equity		4,093		4,129
Liabilities				
Non-current liabilities				
Interest-bearing debt	1,765		1,475	
Lease liabilities	201		159	
Deferred income	1,705		1,682	
Deferred tax liabilities	3		4	
Provisions for employee benefits	32		33	
Other provisions	12		10	
		3,718		3,363
Short-term liabilities				
Trade and other payables	170		150	
Tax liabilities	77		96	
Interest-bearing debt	475		321	
Provisions for employee benefits	52		42	
Accruals and deferred income	234		244	
		1,008		853
Total liabilities		4,726		4,216
Total equity and liabilities		8,819		8,345

Consolidated cash flow statement

€ million	1st half 2019		2018	
Cash flow from operating activities				
Profit after tax		121		227
Adjustments for:				
- finance income and expense		22		21
- tax		42		45
- profit after tax from associates and joint ventures		1		-
- Depreciation and impairment less amortisation		185		164
- Book result sale Allego		-		-106
Changes in working capital:				
- Inventories	4		1	
- Trade and other receivables	-28		-36	
- Trade and other payables and accruals	-9		-8	
Total changes in working capital		-33		-43
Changes in deferred tax, provisions, derivatives and other		-16		18
Cash flow from operations		322		326
Net interest paid	-20		-22	
Net interest received	1		2	
Corporate income tax paid	-54		-40	
Total		-73		-60
Cash flow from operating activities		249		266
Cash flow from investing activities				
Investments in property, plant and equipment	-402		-345	
Construction contributions received	58		50	
Sale of subsidiaries	-		110	
Cash flow from investing activities		-344		-185
Cash flow from financing activities				
Repayment subordinated perpetual bond	-		-412	
Issue subordinated perpetual bond	-		495	
Issued long-term and cash loans	-		174	
Repayment on long-term loans	-14		-5	
Issued EMTN	296		-	
Issued (repaid) ECP	150		-50	
Long-term loans granted	-1		-5	
Repayment on long-term loans granted	3		4	
Received (deferred) short-term deposits	-200		-	
Dividend paid	-150		-92	
Reimbursement on subordinated perpetual bond	-		-14	
Cash flow from financing activities		84		95
Net cash flow		-11		176
Cash and cash equivalents as at 1 January		140		101
Net cash flow		-11		176
Cash and cash equivalents as at 30 June		129		277

Consolidated statement of changes in equity

€ million	Share capital	Share premium	Subordinated perpetual bond	Revaluation reserve	Hedge reserve	Other reserves	Profit for the year	Total
	Equity attributable to shareholders and other providers of equity							
As at 1 January 2018	684	671	496	38	-	1,850	203	3,942
Profit after tax for the first half of 2018	-	-	-	-	-	-	227	227
Comprehensive income for the first half of 2018	**-**	**-**	**-**	**-**	**-**	**-**	**227**	**227**
Other[1]	-	-	-	-	-	1	-	1
Change in valuation on the basis of IFRS 9	-	-	-	-38	-	5	-	-33
Reimbursement on subordinated perpetual bond after tax	-	-	-	-	-	-14	-	-14
Repayment of subordinated perpetual bond	-	-	-409	-	-	-	-	-409
Issue of subordinated perpetual bond	-	-	495	-	-	-	-	495
Dividend for 2017	-	-	-	-	-	-	-92	-92
Profit appropriation for 2017	-	-	-	-	-	111	-111	-
As at 30 June 2018	**684**	**671**	**582**	**-**	**-**	**1,953**	**227**	**4,117**
Other[1]	-	-	-	-	-	-1	-	-1
Reimbursement on subordinated perpetual bond after tax	-	-	-	-	-	-7	-	-7
Repayment of subordinated perpetual bond	-	-	-87	-	-	-	-	-87
Profit after tax for the second half of 2018	-	-	-	-	-	-	107	107
As at 31 December 2018	**684**	**671**	**495**	**-**	**-**	**1,945**	**334**	**4,129**
Change in cash flow hedge reserve	-	-	-	-	-2	-	-	-2
Profit after tax for the first half of 2019	-	-	-	-	-	-	121	121
Total result for the first half of 2019	**-**	**-**	**-**	**-**	**-2**	**-**	**121**	**119**
Other[1]	-	-	-	-	-	1	-	1
Reimbursement on subordinated perpetual bond after tax						-6		-6
Dividend for 2018	-	-	-	-	-	-	-150	-150
Profit appropriation for 2018	-	-	-	-	-	184	-184	-
As at 30 June 2019	**684**	**671**	**495**	**-**	**-2**	**2,124**	**121**	**4,093**

1 Rounding differences are presented in 'Other'.

Dividend

The dividend relating to the 2018 financial year (€ 150 million) was distributed in April 2019 (€ 1.10 per share).

Subordinated perpetual bond loans

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

In the event of a decision to distribute to shareholders, the Board of Directors will pay any remaining overdue perpetual contractual coupon interest to the holders of the subordinated perpetual bond loan from the Other reserves. The annual coupon interest amounts to € 8 million and was paid on the 1st of July 2019.

Hedge reserve

See page 29 for an explanation of the change in the hedge reserve.

Notes to the consolidated half-year figures

General

Alliander N.V. is a public limited liability company, with registered offices in Arnhem, the Netherlands. This half-year report contains the financial information for the first half of 2019 relating to the company and its subsidiaries. The half-year figures have been prepared in accordance with IAS 34 Interim Financial Reporting.

Accounting policies

The same accounting policies were applied in preparing this report as were applied for Alliander N.V.'s 2018 annual report, which can be found at www.alliander.com, apart from the following changes in standards and interpretations effective as from 1 January 2019.

New or amended IFRS standards for 2019

IFRS 16 Leases

IFRS 16 replaces IAS 17, IFRIC 4, SIC 15 and SIC 27 as of 1 January 2019.

Alliander has implemented IFRS 16 with effect from 1 January 2019, using the modified retrospective approach. Prior periods have, therefore, not been restated.

An important consequence of implementing IFRS 16 for Alliander as lessee is that rights and obligations under operating leases must be included in the balance sheet. The basis of measurement used as of 1 January 2019 is the net present value of future cash flows. This has resulted in a € 58 million increase in the balance sheet total. There is also a shift in the income statement from operating expenses to depreciation and, to a very limited degree, to finance expenses. For the first half of 2019, there was consequently a shift of approximately € 9 million from the other operating expenses to depreciation (€ 9 million) and to finance expenses (€ 0.1 million). For the statement of cash flows over the first half of 2019, application of IFRS 16 has led to a € 9 million increase in operating cash flow, while cash outflow from financing activities rose by the same amount over the same period.

In determining the existence of a lease, the provisions of IFRS 16.9 apply. Additionally, use is made of the following exemptions where possible: leases of 12 months or shorter and leases relating to assets with a value of less than € 5,000.

The following practical approaches have also been applied:

- For the current contracts as at 1 January 2019, the existing type classification of leases is applied, 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 are not relevant anymore. New leases will, however, be treated in accordance with IFRS 16 with effect from 1 January 2019.
- Existing finance leases where the asset value is less than € 5,000 are no longer recognised in the balance sheet as of 1 January 2019. The corresponding lease instalments are recognised directly in the income statement. As at 1 January 2019, this has led to a reduction of the balance sheet total by € 1 million.
- By taking the modified retrospective approach, the value of the new lease assets recognised in the balance sheet as at 1 January 2019 becomes identical to the value of the lease liability. There has therefore been no sudden change in the financial position.

To measure the lease liabilities and the right-of-use assets as at 1 January 2019, use was made of the marginal interest rates as at that date. The marginal interest rate is determined on the basis of the risk-free market interest rate plus a risk markup specific to Alliander over a similar period and with the same type of security as the terms on which Alliander would be able to obtain finance to acquire a comparable asset as at 1 January 2019. The weighted average marginal interest rate stood at 0.55% as at 1 January 2019.

Implementation of IFRS 16 has resulted in a € 58 million increase in the balance sheet total as at 1 January 2019. This increase is made up of an increase in lease liabilities and an equal increase in lease assets. By far the greatest part of these lease liabilities relates to business premises and lease vehicles. Ground rents and the rental of telecommunication masts and connections are also accounted for in this amount.

The difference between the operating lease liability of € 134 million as at year-end 2018 and the recognition of € 58 million as at 1 January 2019 under IFRS 16 is largely explained by the fact that the lease obligations for contracted leases where the actual right of use of the assets concerned does not commence until after 1 January 2019, are included in the lease obligations disclosed under the previous standard.

The new standard does not affect the way in which the cross-border leases are accounted for, however. As determined by IFRS 16.B2, these fall outside the scope of IFRS 16.

As at 30 June 2019, the carrying amount for right-of-use assets totalled € 59 million, while lease liabilities stood at € 59 million, which breaks down into € 41 million in non-current liabilities and € 18 million in current liabilities. An impairment totalling € 1 million on the right-of-use assets was furthermore recognised in the first half of 2019. Right-of-use assets have been recognised in the balance sheet under property, plant and equipment, while non-current lease liabilities were recognised under leases and current lease liabilities under interest-bearing debt.

Implementation of IFRS 16 as of 1 January 2019 has only had a minor impact on ratios.

Other changes in 2019

In addition to the implementation of IFRS 16 with effect from 1 January 2019, the following changes are applicable in 2019:

- 'IFRS annual improvements 2015–2017'
    - IFRS 3 'Business Combinations';
    - IFRS 11 'Joint Arrangements';
    - IAS 12 'Income Taxes';
    - IAS 23 'Borrowing Costs';
- IFRS 9: 'Prepayment features with negative compensation';
- IAS 19: 'Plan amendment, curtailment or settlement';
- IAS 28: 'Long-term interests in associates and joint ventures';
- IFRIC 23: 'Uncertainty over income tax treatments'

This half-year report was prepared in compliance with these changes. However, none of these changes have any material impact on Alliander and they will therefore not be considered in greater detail in this half-year report.

Expected changes in accounting policies

In addition to the aforementioned new and amended standards, the IASB and the IFRIC have issued new and/or amended standards and/or interpretations, which will be applicable to Alliander in subsequent financial years. These standards and interpretations can only be applied if adopted by the European Union.
These future amendments to standards and interpretations are not relevant to Alliander and/or do not have any material impact on Alliander so they will not be disclosed in greater detail in this half-year report.

Estimates, judgements and assumptions

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

Segment information

To comply with IFRS 8, Alliander distinguishes the following reporting segments in 2019:

- Network operator Liander
- Other

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

Reconciliation of segment operating profits and consolidated profit

€ million	1st half 2019	2018
Consolidated segment operating profits excluding incidental items	188	192
Incidental items and fair value movements	-2	101
Finance income and expense	-22	-21
Share in results from associates and joint ventures	-1	-
Profit before tax from continuing operations	**163**	**272**

Primary segmentation for first half-year

€ million	Network operator Liander 2019	2018	Other 2019	2018	Eliminations 2019	2018	Total 2019	2018
Operating income								
External income	875	876	96	91	-	-	971	967
Internal income	6	4	166	158	-172	-162	-	-
Operating income	**881**	**880**	**262**	**249**	**-172**	**-162**	**971**	**967**
Operating expenses								
Operating expenses	685	661	270	276	-172	-162	783	775
Operating profit	**196**	**219**	**-8**	**-27**	**-**	**-**	**188**	**192**

Segmented assets and liabilities	Network operator Liander 30-6	31-12	Other 30-6	31-12	Eliminations 30-6	31-12	Total 30-6	31-12
Total assets	7,605	7,413	3,684	3,157	-2,470	-2,225	8,819	8,345
Total liabilities	5,016	4,941	2,574	2,077	-2,864	-2,802	4,726	4,126

Product segmentation

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

€ million	Segmentation consolidated revenue to products						
	Total	Transport and connection service Electricity	Transport service Gas	Connection service Gas	Metering Service small consumers Electricity	Metering Service small consumers Gas	Other activities
Revenue for the first half of 2019	**952**	561	159	50	46	28	108
Revenue for the first half of 2018	**952**	571	162	49	37	28	106

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

€ million	Geographical segmentation consolidated revenue		
	Total revenue	The Netherlands	Abroad
Revenue for the first half of 2019	**952**	932	20
Revenue for the first half of 2018	**952**	931	21

Over time

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

Seasonal influences

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

Sale of Allego in 2018

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

The purchase price is made up of a lump sum and a deferred payment (due 31 December 2023). The fair value of the deferred amount has been calculated at € 26 million.

In mid-2018, the provisional book profit was € 106 million, which was later adjusted to € 105 million based on the final settlement. This book profit was recognised in other income.

EMTN and ECP programmes

Alliander has an EMTN programme of € 3 billion under which notes to a value of € 1.7 billion were in issue as at 30 June 2019 (as at 31 December 2018: € 1.4 billion), and an ECP programme of € 1.5 billion, under which short-term commercial paper to a value of € 150 million was in issue as at 30 June 2019 (as at 31 December 2018: nil).

Green bond issue

On 17 June 2019, Alliander issued green bonds with a nominal value of € 300 million and a tenor of 13 years. The bonds were issued at a price of 98.628% and a coupon rate of 0.875%. The proceeds from the issue of green bonds were used to refinance investments in the smart meter, and in the Fair Meter in particular. The fair meter is the result of a joint cooperation of network operator Liander and several parties from across the industry, aimed at making the smart meter more sustainable. In developing a new and sustainable meter, the parties have looked at the sustainability and origins of materials used, the meter’s circularity and working conditions across the production chain, including the exclusion of child labour. It is the second green bond that Alliander has issued. The first was issued in 2016 to refinance smart networks (including smart meters) and the sustainable building in Duiven.

In line with Alliander’s risk management policy, Alliander has taken measures to mitigate the interest rate risk attached to the new EMTN financing of € 300 million. For this purpose, two forward starting interest rate swaps were entered into in the run-up to the bond issue. When the bond loan was issued, both the interest rate swaps were settled. As a result, the interest rate risk was mitigated to a large degree in the run-up to the bond issue. The loss on the settlement totalling € 3 million has, after deducting deferred tax, been recognised in the hedge reserve in equity. The resulting hedge reserve will be released in the income statement over the term of the EMTN (up to 24 June 2032).

Business combinations

Alliander did not enter into any new business combinations in the first half of 2019 and 2018.

Cross-border leases

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

There were no changes in the existing CBL portfolio in the first half of 2019. 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 US counterparty under the head lease, thus ending the transaction. The terms agreed for the subleases expire between 2022 and 2028. The fees earned on the cross-border leases were recognised in the year in which the transaction in question was concluded. There are conditional and unconditional contractual rights and obligations relating to the cross-border leases.

The total net carrying amount of the assets covered by cross-border leases by mid-2019 was approximately € 650 million (year-end 2018: € 650 million). At the end of June 2019, a total of $ 2,865 million (year-end 2018: $ 2,786 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 investments concerned and associated liabilities, these are not regarded as assets and liabilities of Alliander and the respective amounts are not recognised in Alliander's consolidated financial statements. The investments over which Alliander does have powers of disposal are recognised as financial assets. The associated lease obligations are recognised in lease liabilities.

At the end of June 2019, the 'strip risk' for all transactions together was $ 154 million (year-end 2018: $ 200 million). The strip risk is the portion of the 'termination value' (the possible compensation payable to the US counterparty in the event of early termination of the transaction) that cannot be settled from the deposits and investments held for this purpose. The strip risk is affected to a great extent by market developments.

In connection with the implementation of the Dutch Independent Network Operation Act, the district 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 Vattenfall N.V. These operating leases have a term of 12.5 years (term runs to 31 December 2020). By mid-2019, the total carrying amount of the subleased district heating networks and associated meters was € 94 million (year-end 2018: € 90 million).

Related parties

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

The following transactions were entered into with related parties for the purchase and sale of goods and services: sale of goods and services to associates € 0.1 million (first half of 2018: € 0.1 million) and joint ventures € 46 million (first half of 2018: € 47 million); purchase of goods and services from associates € 8 million (first half of 2018: € 7 million) and from joint ventures € 62 million (first half of 2018: € 55 million).

As at the end of June 2019, Alliander had receivables of € 18 million (year-end 2018: € 21 million) in respect of loans granted to related parties and receivables of € 33 million in respect of agreed borrowings on current accounts with related parties (year-end 2018: receivables of € 17 million).

Other

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

In 2016, Alliander paid its corporate income tax bills for the 2010-2013 period, not factoring in the aforementioned deductible interest expense. Aside from that, the outcome of the dispute with the Dutch Tax & Customs Administration has an impact on the timeliness of the offset of losses. Based on the advice of external consultants, the Management Board has decided to recognise a receivable in respect of the disputed corporate income tax paid in 2016 and 2017. A similar question hangs over the withholding tax payable on dividends. No withholding tax assessments (final or provisional) have been paid. Having again consulted outside experts, the Management Board decided not to recognise a provision in this respect. Total maximum exposure for Alliander is approximately € 38 million. As at year-end 2018, there were no significant changes to off-balance sheet rights and obligations.

Information on risks and financial instruments

Financial risks

The following financial risks can be identified: market risk, credit risk, currency risk and liquidity risk. The condensed consolidated half-year financial statements do not, as is required for the full-year consolidated financial statements, contain comprehensive information on the above financial risks to which Alliander is exposed and the policy for managing the risks associated with financial instruments and should be read in conjunction with the 2018 consolidated financial statements. There have been no changes in the risk management process or risk management policy since the end of 2018. There were no material credit-related losses in the first half of 2019.

The following table lists the fair values of the financial instruments that are recognised at amortised cost. Also shown is the input data level according to the fair value hierarchy. The input data levels for measuring fair value are as follows:

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

Fair value of financial assets and liabilities measured at amortized cost

€ million	30 June 2019		31 December 2018	
	Fair value	Level	Fair value	Level
Non-current assets				
Investments in bonds and other financial assets	225	2	253	2
Liabilities				
Non-current liabilities				
Interest-bearing debt:				
Euro Medium Term Notes	-1,488	1	-1,184	1
Other interest-bearing debt	-473	2	-396	2
Total non-current liabilities	**-1,961**		**1,580**	
Short-term liabilities				
Interest-bearing debt:				
Euro Medium Term Notes	-307	1	-313	1
Euro Commercial Paper	-150	2	-	2
Other interest-bearing debt	-15	2	-28	2
Total short-term liabilities	**-472**		**-341**	
Total liabilities	**-2,433**		**1,921**	

Measurement of fair value

The fair value of these instruments is measured as follows:

Investments in bonds and 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.

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

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

Events after balance sheet date

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

Review report

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

Introduction

We have reviewed the accompanying condensed consolidated interim financial information of Alliander N.V., Arnhem, which comprises the statement of financial position as at June 30, 2019, the statements of comprehensive income, changes in equity, and cash flows for the period of six months ended June 30, 2019 and the notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on the condensed consolidated interim financial information based on our review.

Scope

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at June 30, 2019 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Rotterdam, July 24, 2019

Deloitte Accountants B.V.

J. Dalhuisen

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