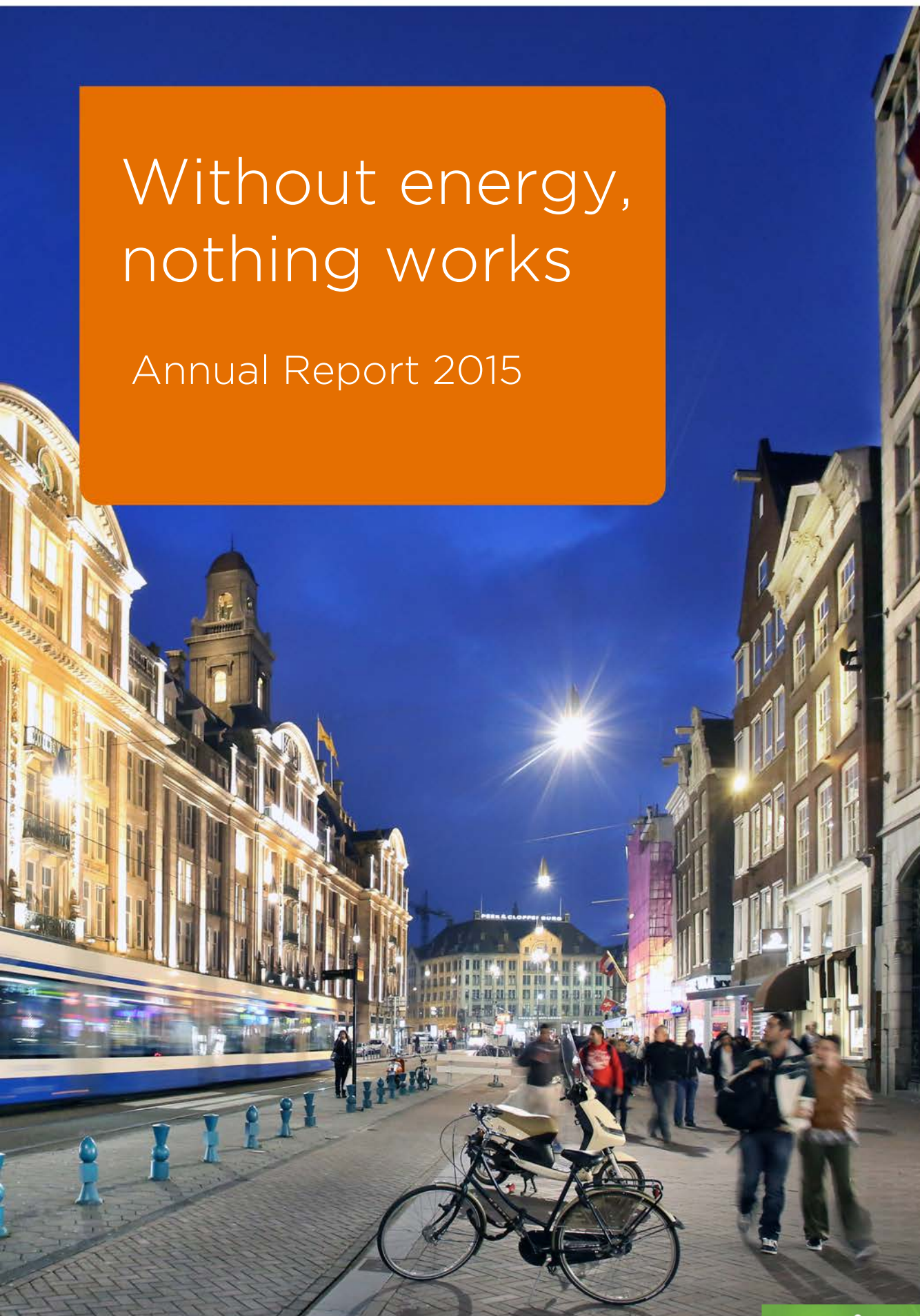


Without energy,
nothing works

Annual Report 2015



allliander

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About this
report

About this report

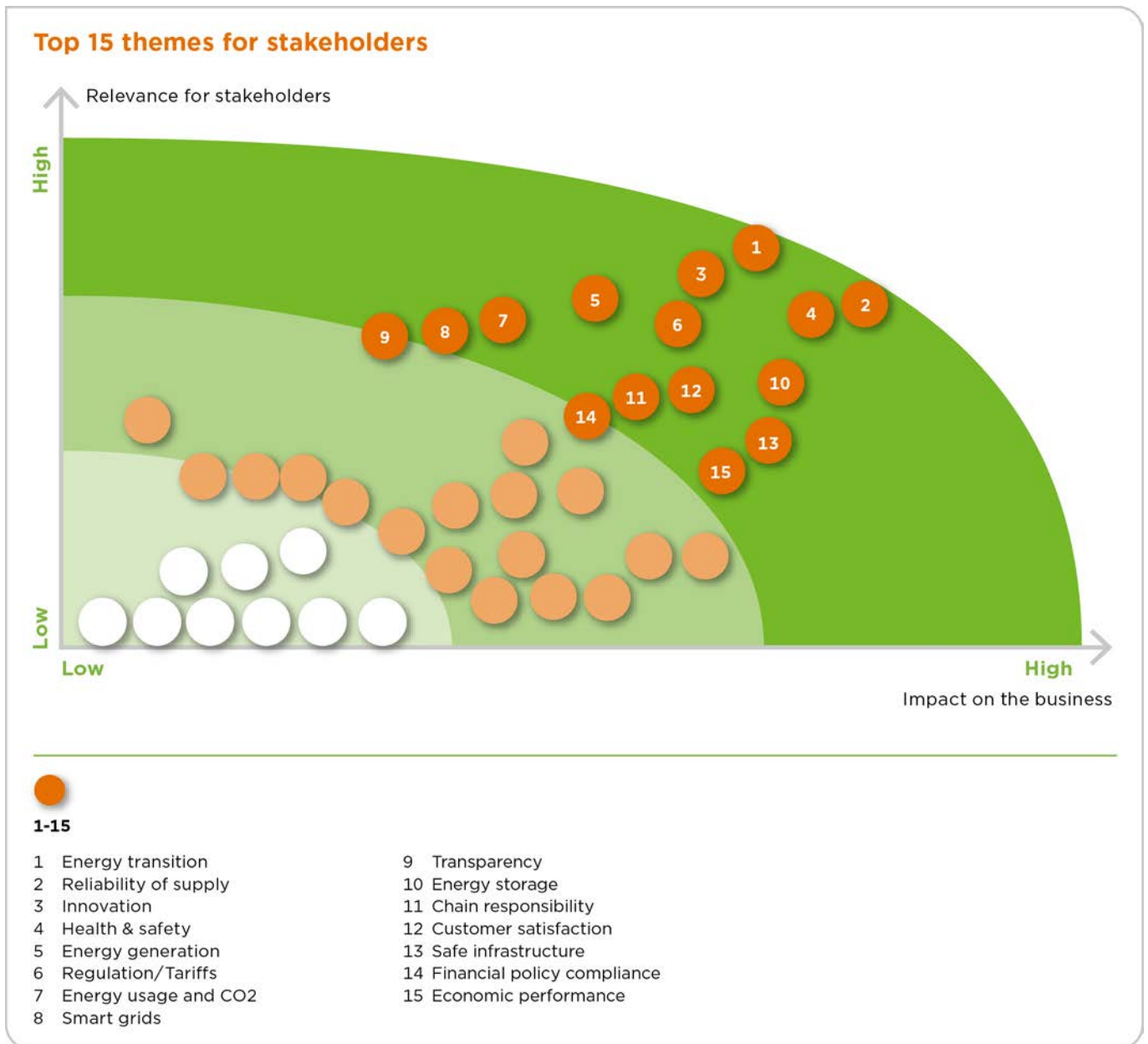
This annual report provides an account of our activities in 2015 and clarifies our role in the energy transition. Transparency and an open dialogue with stakeholders are key priorities in our reporting process.

Our annual report is largely structured according to three stakeholder groups: customers, employees and shareholders and investors. This approach corresponds with Alliander's governance model, which is geared to these three key stakeholder groups, with a strong focus on the customer. Our continuous dialogue with these and our other stakeholders gives us greater insight into trends and needs in society. It also enables us to exchange thoughts and ideas, and to test our proposed policy choices and decisions among stakeholders. You can read more about our stakeholder materiality test in the [Other information](#) chapter.



Stakeholder dialogue forms the basis for our report

We asked our stakeholders what aspects they thought we should report on. Drawing on their input, we selected a list of 15 themes that form the basis of the annual report. The illustration below depicts the top 15 themes that matter most to our stakeholders.



For the complete materiality chart, please see [Other information](#).

Integrated reporting

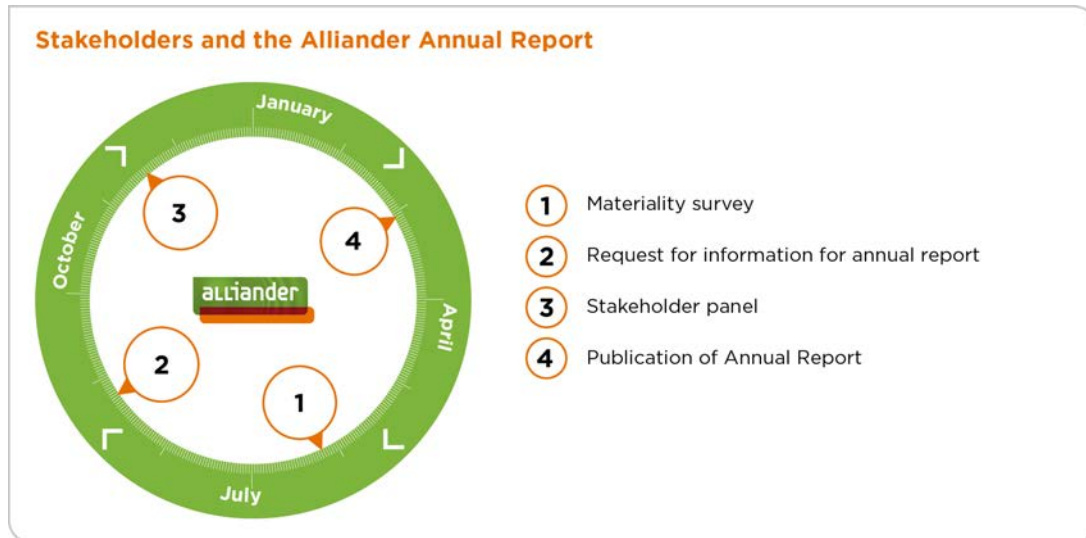
This is an integrated annual report incorporating financial, operational and corporate social responsibility (CSR) information. The financial information in this annual report has been consolidated for Alliander and all subsidiaries. The financial report was prepared in accordance with the International Financial Reporting Standards (IFRS) and the relevant provisions in the Dutch Civil Code.

The CSR information has been consolidated for Alliander and its three main subsidiaries (Liander, Endinet and Liandon). The most material aspects for our stakeholders mainly relate to the activities of these companies. The CSR report was prepared in compliance with the guidelines of the Global Reporting Initiative (GRI) and the Electric Utilities Sector Supplement. The Alliander Annual Report 2015 was drawn up in accordance with the 'comprehensive' option of the GRI G4 reporting guidelines.

Transparency

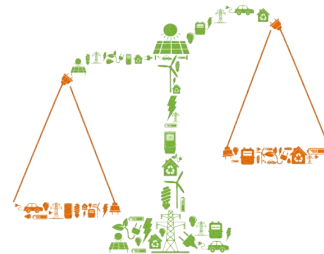
Our stakeholders attach great value to transparency - and so do we. Our ambition is to be among the leaders in the Transparency Benchmark of the Ministry of Economic Affairs, and to retain the GRI G4 level.

This year, a stakeholder panel gave us feedback during the writing of the report. This marks a new step in our ambition to continue working on the further development of our structural stakeholder dialogue in the coming years. The stakeholders recognised Alliander's facilitating role in the energy transition, but were keen to see more specific information on the longer-term objectives and approach. Their findings can be read in [Other information](#). We adhere to the Transparency Guideline and the relevant provisions from the Dutch Corporate Governance Code and the Decree on Corporate Governance 2009.



Impact measurement

In recent years, growing attention has been devoted to impact quantification. Impact comprises all the effects that an organisation's activities have on society. In 2015, Alliander initiated a process to take impact measurement a step further. Impact measurement at Alliander is aimed at optimising its social performance through the active management of measurable effects of its activities on a reliable, affordable and renewable energy supply. Alliander's impacts on its stakeholders are identified for this purpose. Our impact measurements and reporting will be further expanded in the coming years.



In 2015, we measured the impacts of three measures. First, the installation of smart meters at customers in order to achieve energy savings and optimise energy usage. The new remotely readable digital meter will contribute towards securing a reliable and affordable energy network. Second, the operation of a heating network in the town of Nijmegen by Alliander Duurzame Gebiedsontwikkeling (DGO) as a sustainable alternative for a conventional gas network. Third, the implementation of our Step2Work programme, which helps people at a distance to the labour market increase their prospects of finding work. These cases (which you can recognise by the 'scales' symbol) are worked out in greater detail in the stakeholder chapters.

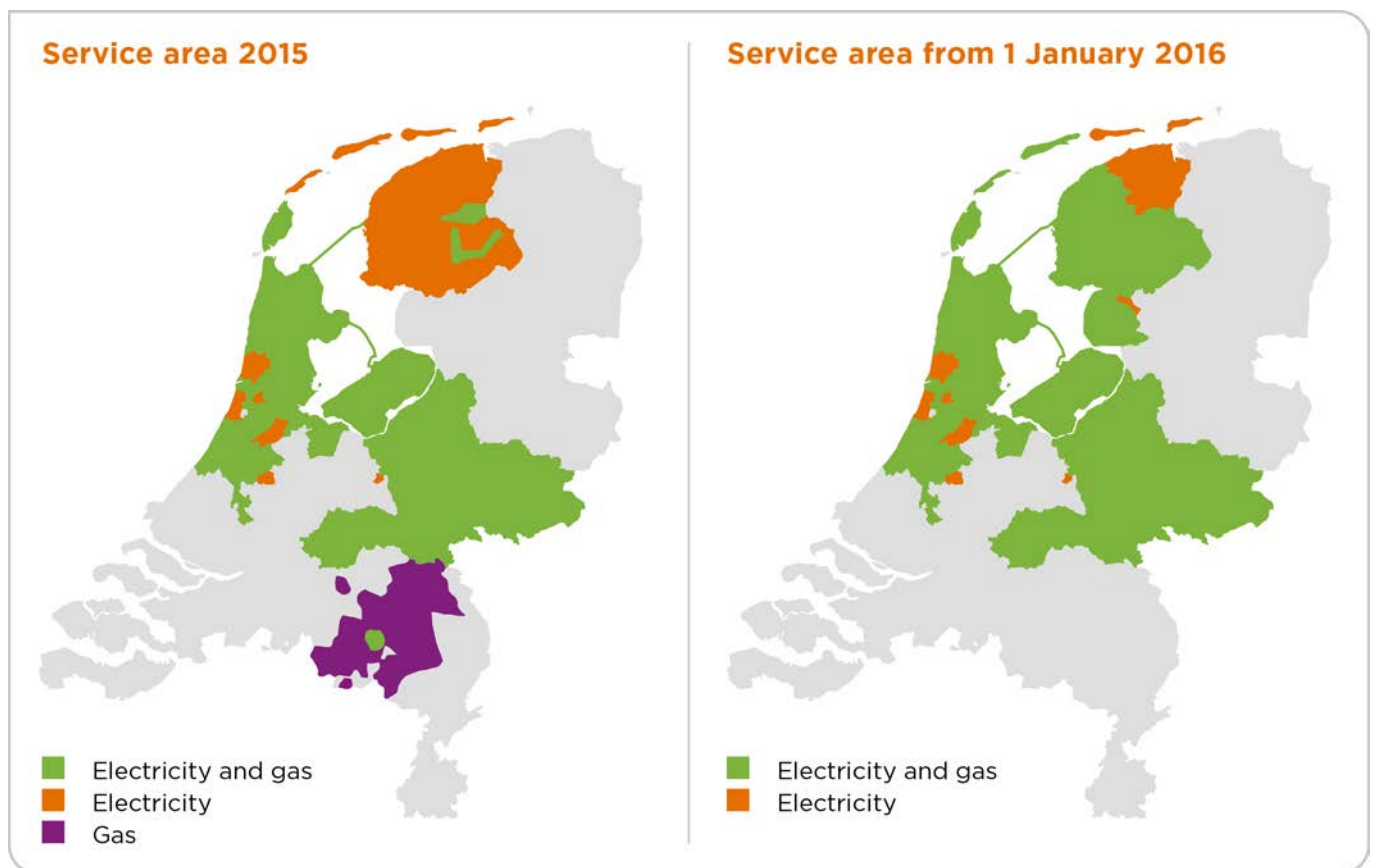


About Alliander

Company profile

Alliander is a network company. We secure a reliable, affordable and accessible energy distribution in a large part of the Netherlands.

Alliander incorporates group of companies, including Liander, Liandon and Allego. Together we stand for high-quality knowledge of energy networks, energy technology and technical innovations. Network operation is our core activity. Network operator Liander keeps the energy infrastructure in good condition to ensure distribution of gas and electricity to millions of consumers and businesses every day. Effective from 1 January 2016, our service area has been reshaped following an exchange of regional networks. The operational area of Liander has been expanded to include the Noordoostpolder and parts of Friesland. In exchange, Endinet has become part of Enexis.












Liandon focuses on the development of sustainable technologies and intelligent energy infrastructures.

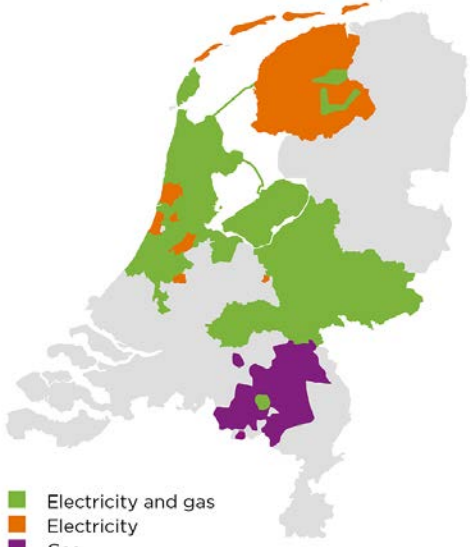
In addition, Alliander explores and develops new business activities that fit our company's strategy and the role we see for ourselves in the transition towards a more renewable energy system. Allego, for instance, is developing customised charging solutions and infrastructure for municipalities, businesses and transport companies. Alliander Duurzame Gebiedsontwikkeling (DGO) connects area owners, public authorities, providers and users to help them realise their sustainable ambitions, e.g. through the development of open energy infrastructures.

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 infrastructure issues.


2015 in numbers

<p>Number of customer connections </p> <hr/> <p>5.7m</p>	<p>Number of employees </p> <hr/> <p>7,240</p>
<p>Electricity ¹ outage duration </p> <hr/> <p>21.9 minutes</p>	<p>CO₂ emissions </p> <hr/> <p>801kt</p>
<p>Revenue </p> <hr/> <p>1.6 € bn</p>	<p>Investments </p> <hr/> <p>575 € m</p>
<p>Total assets </p> <hr/> <p>7.7 € bn</p>	<p>Operating profit </p> <hr/> <p>235 € m</p>

Our service area



■ Electricity and gas
■ Electricity
■ Gas

Grid length 

ELECTRICITY

89,000 km

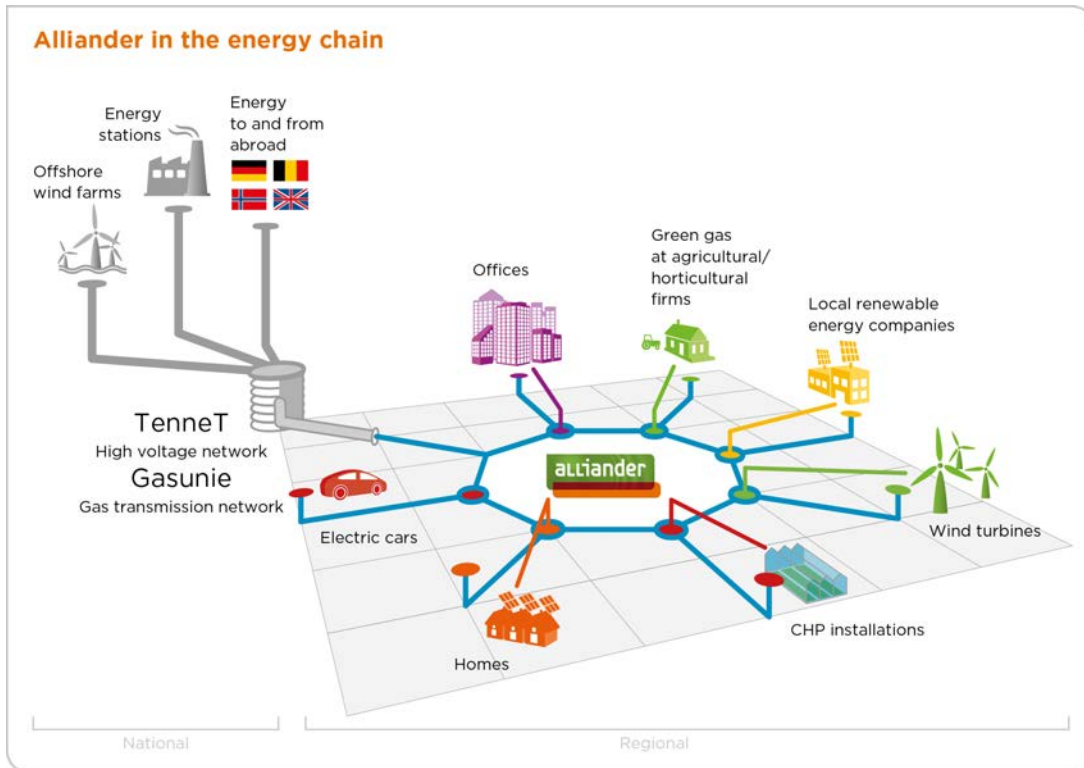
GAS

43,000 km

1. Concerns Liander

Our role in the energy sector

As a network company, Alliander is responsible for the distribution of energy, such as electricity, gas, biogas and heating. We do not produce or trade energy ourselves. This is done by energy suppliers, buyers and traders. The vast majority of the energy we distribute in our regions comes from energy plants and wind farms through the international and national energy networks of TenneT and Gasunie. In addition, a growing number of consumers and businesses are feeding their self-generated energy into our networks. This is making the energy supply chain more dynamic. Alliander ensures that all energy is distributed as safely and efficiently as possible from source to end user - for instance, from wind turbines to households or electric vehicle charging points.



Our mission

Energy is essential for our well-being and our prosperity. Without energy we cannot heat our homes, cook, teach or communicate. Our road and rail systems would grind to a halt. And our financial system would cease to function. Energy enables us to live, work and travel. Without energy, nothing works. It is the oxygen that keeps our society moving.

We stand for an energy system where everyone has equal access to reliable, affordable and renewable energy. That is what we work to secure every day.



How we make a difference for customers

Energy enables us to live, work and travel.

Three key issues emerged from our stakeholder dialogue with customers:

Reliability

Customers must have safe and continuous access to energy, 24 hours a day, seven 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 be able to make their own energy choices. 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

Our energy system is changing at a rapid rate. Timely anticipation of developments that may affect our customers and our activities is crucial for Alliander. In 2015, we revised our strategy in response to the changing energy supply system. We see three important trends and eight related challenges for the energy system.

Trend 1: society electrifies

The proper operation of our society - individuals, households and businesses - is increasingly dependent on electricity. Heating, telephony, internet and medical care can no longer do without electricity, nor can new energy-intensive applications, such as electric driving and fully electric heating.

Challenge 1: growing need for electricity transmission capacity

The increasing and more intensive use of electrical applications calls for greater transmission capacity of the electricity network.

Challenge 2: The electricity network is supposed to be even more reliable than ever

Due to their growing dependence on our electricity supply, customers have increasingly high expectations regarding the reliability of the electricity network.

Alongside the growth of electricity applications, we notice a decrease in the demand for natural gas. Modern buildings use so little gas for heating and hot water that alternative heating solutions are becoming increasingly attractive for new-build and renovation projects.

Challenge 3: number of gas connections is falling

We expect our dependence on gas and the number of gas connections to decrease significantly in the coming years.

Trend 2: bottom-up drive towards more renewable energy

Renewable energy is becoming an ever-greater priority. Consumers are increasingly opting for renewable energy alternatives. The National Energy Agreement provides for a package of measures aimed at generating 16% of our energy from renewable sources by 2023. And the European Union member states are targeting an 80% reduction in CO₂ production by 2050. Finally, ambitious global climate goals were set by the Paris Climate Summit at the end of 2015. We see the following challenges:

Challenge 4: renewable sources influence quality of gas and electricity supply

The increased generation of wind, solar and tidal energy leads to greater fluctuations in the energy supply as well as variances in voltage quality. The arrival of biogas and green gas makes strict monitoring of the gas quality imperative. This has consequences for the quality and security of supply of the existing networks.

Challenge 5: peak loads influence reliability

Solar panels, electric transport and heat pumps are characterised by a high degree of 'simultaneity': supply and use of electricity largely take place at the same time. For instance, when the sun shines, all panels in a neighbourhood will immediately start feeding energy into the network. The current electricity network is unable to cope with these new peak loads. This development has consequences for the reliability of the existing networks, particularly if the use of these installations continues to grow in the future.

Challenge 6: Universal access to new energy networks cannot be taken for granted

Alongside the electricity and gas networks, there is a growing demand for heating and charging infrastructures. Customers are also starting to form collectives in order to invest in decentralised energy generation facilities, such as wind turbines and solar panels. Not all users will necessarily enjoy guaranteed access to this new energy infrastructure on equal conditions.

Challenge 7: grid defection is becoming a serious scenario

Decentralised electricity generation and storage will be a reasonably affordable option within ten years. The number of users - both individuals and collectives - that fulfil their own energy needs is set to grow. This means that in the longer term more and more businesses and households will cancel their connections. This, in turn, will inflate the costs per connection for customers who have not yet disconnected. Exactly how this transition to more renewable energy will take place is difficult to predict.

Key factors in the development towards a more renewable energy supply are the speed with which users switch over to renewable energy and the specific solutions they select. Sustainability is essentially a bottom-up process.

Trend 3: crucial role for information technology and data

ICT and data enable network operators to improve their energy flowmanagement, prevent and detect faults faster, make more targeted investments and offer new services to customers. It also enables them to optimise the usage of the existing energy infrastructure by suppliers and customers. Finally, ICT and data also make it possible for suppliers to develop new products and services that empower users - consumers, businesses and authorities - to manage their own energy flows.

Challenge 8: ICT creates important opportunities

Information technology and data are set to play a crucial role in the design, operation and optimisation of our energy supply. ICT is a high-impact driver of the changes in the energy system.

Below, we have set out the strategy we have developed to address these challenges in the changing energy landscape. You can also read where our organisation sees opportunities and threats in our SWOT analysis in 'Other information'.

Strategy

Given the trends and developments, we foresee the emergence of a fundamentally different energy system: the developments outlined pose serious challenges that must be resolved to continue guaranteeing the reliability, affordability and accessibility of our energy supply. Alliander is responding to these challenges with a clear strategy.

Alliander facilitates the energy transition

When our customers start using more energy at specific times of day in a particular city, district or street, our traditional response is to upgrade our network. For instance, by laying thicker cables or installing an additional transformer. However, our energy system is set to undergo much more rapid and radical change in the coming decades. Straightforward upgrades are no longer sufficient to keep pace with these revolutionary developments. Moreover, network upgrades are time-consuming and expensive. And fail to address the need to safeguard the quality and accessibility of the new energy networks. That is why Alliander is opting for alternative ways of dealing with the changes in the energy system.

Alliander supports 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 achieve this, we need to apply variable energy pricing (the scarcer energy is at a certain time of day, the higher the price) and flexible transmission tariffs (based on peak loads in the transmission networks) for all customers. That way, they can decide for every 15-minute or hourly time slot whether using, selling or storing energy is the best option for them. Clearly, this decision-making process must be automated in order to minimise the time customers need to spend managing their energy. Alliander is facilitating this process. In the coming years we will offer smart meters enabling billing per fifteen-minute or hourly time slot to all our customers. And we will also help customers to exchange energy among themselves.

Alliander is investing in alternative open infrastructures

The construction of alternative infrastructures may prevent the need for costlier investments in the existing network, for instance in a scenario where a local community wants to install heat pumps in every individual home. In this case, the demand for electricity at peak times 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. An alternative infrastructure (such as a heating or biogas network) may be a better option. That is why Alliander is investing in the development of alternative energy networks.

It is crucial to ensure that this new infrastructure remains accessible ('open') to everyone under equal conditions. Universal access will make these networks more affordable, as the costs are shared among more users. Added to this, facilitating the market forms an important element of our corporate social responsibility.

Alliander digitises

Ongoing ICT innovation is rapidly giving rise to new digital opportunities for network operation. These new technologies allow 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 costly network upgrades. Alliander has therefore opted to extensively digitise its networks, using state-of-the-art innovations. By installing smart meters, sensors, remote-controllable switches and a telecom network, we can respond quickly and at acceptable costs to the far-reaching changes taking place in the energy system.

Excellent network management is the basis

The Dutch energy network is among the most reliable in the world and we aim to keep it that way. Thanks to efficient management and economies of scale, we can keep the existing networks affordable. We also want to continue increasing the level of comfort our customers experience when we are working for them. The trust of our customers is important, both to perform our traditional daily work and to realise our new network ambitions.

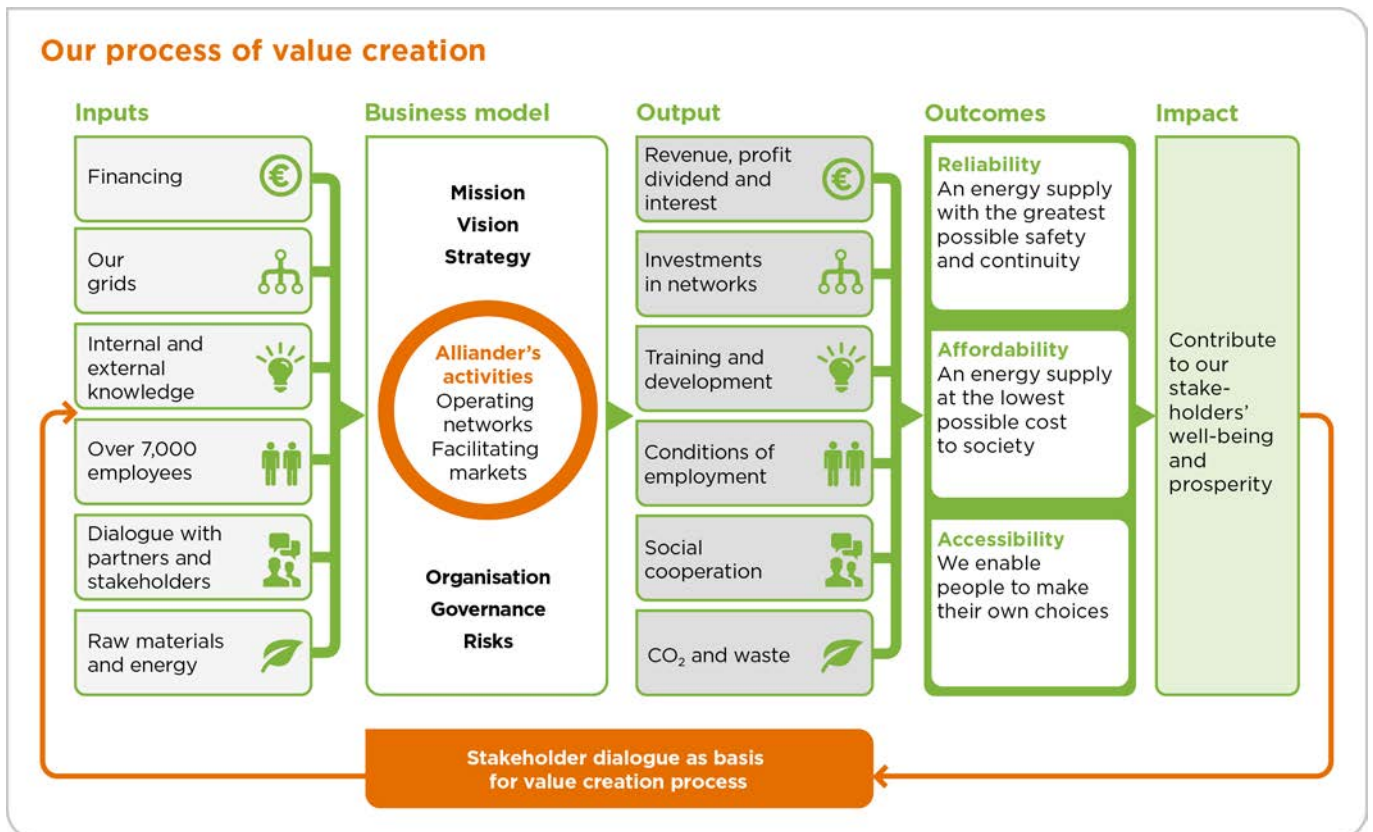
To continue guaranteeing a reliable, affordable and accessible energy supply, we seek to recognise and understand innovative trends in the world around us at an early stage. And we actively contribute to the development and large-scale application of open standards, for both new networks and solutions that help customers make good choices.



How we create value for stakeholders

The aim of our strategic choices is to create value for our stakeholders who have diverse needs. To serve their interests as best as possible, we engage in a dialogue with them. Together we decide what is needed to shape our energy system of the future.

Our value creation process is based on careful choices, from input to impact. In our three stakeholder chapters, we take a closer look at the realised value.



Our story in 2015

The year 2015 was marked by a broad variety of activities to facilitate the energy system of today and tomorrow - including the operationalisation of a brand-new heating network in Nijmegen, the installation of smart meters for 170,000 customers, and assisting customers with innovative energy solutions.

Safety comes first for us. We do the job safely or not at all. Accordingly, safety is paramount in the performance of all our tasks and we invest heavily in safety awareness and behavioural change within our organisation. Despite these efforts, more accidents leading to absenteeism occurred in 2015 than in 2014. Regrettably, some of these incidents were serious. Two engineers, for instance, suffered burns. Safety therefore remains our top priority.

Working on reliable networks

Last year we celebrated a special milestone: our 100th anniversary as an energy network operator. Since our foundation in 1915 as Provinciale Geldersche Electriciteits-Maatschappij (PGEM), we have grown into a company that delivers energy to a large part of the Netherlands - enabling millions of people to live, work and travel.

We work daily to distribute energy to consumers and businesses and make substantial annual investments in the quality of our networks. In 2015, we spent about €700 million on the reinforcement, digitisation and maintenance of our networks. The results speak for themselves: we have one of the most reliable networks worldwide. Once again, outage duration was low in 2015. We are replacing obsolete networks and applying new technologies that help us to localise faults faster and, preferably, prevent them altogether. The digitisation of our networks is also contributing to an increased reliability of our energy supply.

The power outage that occurred last year in the province of Noord-Holland re-emphasised the crucial importance of an uninterrupted energy supply for our customers. A fault in the high-voltage network of TenneT in March deprived about one million customers of electricity during a substantial part of the day. Daily life in a large part of the Randstad conurbation was severely disrupted. In addition, we were confronted last year with two major gas interruptions in Velsen and Oldebroek, which left hundreds of customers without gas for several days. These network failures cause great inconvenience to society at large.

Apart from a reliable energy supply, customers also need a good service at an affordable price. Last year we made investments to increase our operational efficiency and work in a more customer-centric manner. Customer satisfaction in the consumer market remained unchanged at 95% and rose in the business market to 86% (2014: 84%).

In 2015, we worked closely with Enexis to exchange parts of our service areas. Effective from 1 January 2016, our activities in Brabant were transferred to Enexis, while the networks in the Noordoostpolder and part of Friesland were migrated to the Alliander service area. The move to bring the electricity and gas networks in these areas under the control of a single operator will create clarity for customers and public administrators, while also enhancing operational efficiency.

Choosing our energy together

In response to the rapidly changing energy system, we made our strategy explicit. 24/7 power plants are making way for solar panels and wind turbines that only generate energy when the sun shines or the wind blows. To heat our homes and power our cars, we are switching over from gas and oil to electricity and residual heating. Customers are increasingly generating their own energy, both for self-consumption and to exchange. New types of networks are coming to the fore, but may not be accessible to everyone. And we may be confronted with 'network defectors': customers who become self-sufficient and cancel their connection to the energy network - initially for gas, and later also for electricity.

These developments have an impact on the essence of Alliander's existence: reliable, affordable and accessible energy distribution. Our strategy identifies four pillars for finding suitable answers to these issues. We support customers in making choices that work for them as well as for the energy system as a whole. We are investing in alternative open infrastructures and digitising our networks. Finally, we are committed to excellent network management as the basis of our operations.

The initial results of our revised strategy are already visible. Together with partners, we have set up a smart energy testbed in a neighbourhood in Heerhugowaard to try out future-proof energy solutions together with local residents. We have also launched the large-scale roll-out of the smart meter. This digital meter, which is a crucial part of the future energy system, will be offered to all our three million-plus customers by 2020.

In the past years, Alliander has been actively engaged in the development of new open infrastructures. In March 2015, for instance, Minister Kamp of Economic Affairs opened the new heating network in Nijmegen. This network uses residual heating from a waste processing plant to heat thousands of homes, leading to a CO₂ reduction of 70% compared to gas. In 2015, the CO₂ saving amounted to 3,700 tonnes, comparable with the annual energy emissions of 800 households. Meanwhile, new heating networks are now under development at various other locations in the Netherlands. These networks are 'open' in the sense that they are accessible to multiple parties. Alliander subsidiary Allego is developing an electric vehicle charging infrastructure in the Netherlands, Belgium and Germany. This infrastructure must be designed in such a way that costly investments in the networks are avoided. With Alliander AG we are also active in Germany, including the management of electricity and gas networks, public lighting and traffic lights. In 2015 two-term contracts in Heinsberg and Berlin were renewed.

In the past year, the modernisation of the regulatory regime for the energy sector was the subject of lively political debate. The outcome was a bill, entitled STROOM, that sought to provide answers to the challenges of the energy transition. However, as this bill failed to gain a political majority, the Electricity Act 1998 and the Gas Act remain in force for the time being. We hope that the regulatory situation will be clarified soon, so that the sector can start looking forward, with a focus on the challenges awaiting us following the Paris climate agreement.

Social responsibility

Alliander plays a pivotal role in the energy supply. But our ambitions in the area of corporate social responsibility go beyond energy alone. One initiative in this connection is our Step2Work programme, which helped 103 people at a distance from the labour market to find new jobs in 2015. In addition, 1000 colleagues took part in volunteer projects of the Alliander Foundation, including for refugees from Syria. Our sustainability results also give us cause for pride. We are currently greening our operations with the aid of renewable energy produced in the Netherlands. In addition, we opened our sustainable building in Duiven, which was redeveloped according to ambitious circular criteria. In the coming years, we will continue to redevelop and green our other office buildings, including the head office in Arnhem.

As a socially responsible company, we must obviously comply with all laws and regulations. Last year, Alliander received questions from the regulators about various issues, including our compliance with the WNT (Executives' Pay (Standards) Act) and certain new activities. The regulators concluded from their investigations into our application of the WNT and the activities of Allego that Alliander complies with legislation and regulations in these fields. In addition, the Trade and Industry Appeals Tribunal (College van Beroep voor het bedrijfsleven - CBb) found that the ACM had not been justified in imposing a penalty on Liander for the alleged violation of the confidentiality obligation. The CBb also overturned the binding instruction imposed by the ACM in this connection.

Financial results

Alliander's profit after tax fell from €323 million to €235 million, mainly due to several incidental items and cost increases. Total operating expenses rose to €1,379 million (2014: €1,317 million), primarily due to higher surffrance tax levies, TenneT transmission charges and network maintenance costs. Our financial position remained solid in 2015, as is reflected in our credit ratings from S&P and Moody's.

The most important ambassadors of our work are our employees. They visit thousands of customers every day to perform all sorts of tasks, such as replacing meters and repairing faults. Together, they work extremely hard to achieve an uninterrupted distribution of energy. We would like to give them a special thank you for their invaluable contribution.

Together with our stakeholders, we will continue in 2016 to work on our biggest common challenge: an open energy system that gives everyone equal access to reliable, affordable and renewable energy.

Peter Molengraaf, Mark van Lieshout and Ingrid Thijssen



Management Board of Alliander









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

Objectives & results





Safety

Objectives 2015	Results 2015	Objectives 2016	Strategic objectives	Main risks ⁶
 <p>LTIF (lost time injury frequency) A decrease in the number of accidents leading to absenteeism, so that the LTIF is 2.2 or lower.</p>	<p>24 accidents leading to absenteeism occurred, resulting in an LTIF of</p> <p>2.1</p>	An LTIF of 2.1 or lower.	An LTIF of 2.0 or lower from 2017.	
 <p>Safety culture We strive for a score of at least 3.0 on the safety ladder in the safety culture measurement.</p>	<p>Our score is</p> <p>3.1</p>	Active safety culture percentage is 30% or higher. ⁵	We strive for a safety culture within the organisation, subject to the agreed safety parameters and with a focus on attitude and behaviour.	





Customers

Objectives 2015	Results 2015	Objectives 2016	Strategic objectives	Main risks ⁶
 <p>Customer satisfaction¹ Customer satisfaction in consumer and business markets continues to outperform a benchmark of Dutch network operators.</p>	<p>consumer market</p> <p>103%</p> <p>against benchmark</p> <p>business market</p> <p>95%</p> <p>against benchmark</p>	Customer satisfaction in consumer and business markets outperforms the benchmark of Dutch network operators.	Customer satisfaction in consumer and business markets outperforms the benchmark of Dutch network operators.	Data quality Changing regulations Sufferance tax Gas interruptions due to water mains breakages
 <p>Electricity outage duration^{1,4} Maintain low outage duration. The objective is a maximum of 22 minutes.</p>	<p>21.9</p>	Maintain low outage duration. The objective for 2016 is 21 minutes.	The outage duration remains 21 minutes at maximum in the coming years.	
 <p>Number of postcode areas with more than five interruptions per year¹ Reduce the number of postcode areas with more than five interruptions to a maximum of 17.</p>	<p>10</p>	The number of postcode areas with more than five interruptions is a maximum of 16.	The number of postcode areas with more than five interruptions is a maximum of 15 in 2017.	Data quality Timely anticipation of the impact of the energy transition
 <p>Progress on most important projects¹ Our aim is to complete 90% of the most important projects.</p>	<p>100%</p>	In 2016, we again aim to complete at least 90% of the most important projects before year-end.		
 <p>Offer smart meter¹ We offer smart meters to 170,000 addresses.</p>	<p>113%</p>	We will offer smart meters to 447,000 addresses.	By 2020 everyone has been offered a smart meter.	Increasing spatial planning complexity Feasibility of meter replacement volume
 <p>Digitisation programmes¹ Our aim is to achieve the (technical) realisation of 90% of the most important digitisation programmes in 2015.</p>	<p>64%</p>	In 2016 we will complete 95% of our planned digitisation projects.	Alliander opts for digitisation of its networks.	Insufficient anticipation of the impact of the energy transition Cyber crime

Employees

Objectives 2015	Results 2015	Objectives 2016	Strategic objectives	Main risks ⁶
 <p>Employee survey score² Great Place to Work employee survey score of at least 75.</p>	73	In 2016, 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.	
 <p>Absenteeism employees Maximum absenteeism percentage of 3.9%.</p>	3.8%	Maximum absenteeism percentage of 3.9%.	The maximum absenteeism percentage is 3.9% in the coming years.	
 <p>Women in leadership positions At least 23% of all leadership positions are filled by women.</p>	25.6%	At least 26% of all leadership positions are filled by women.	In 2020 at least 27% of our leadership positions are filled by women.	
 <p>People at a distance from the labour market Offer a job to 100 people at a distance from the labour market.</p>	103	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 2015	Results 2015	Objectives 2016	Strategic objectives	Main risks ⁶
 <p>Retention of solid rating Maintain solid A rating profile.</p>	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.	Changing regulations Financial risks (see financial statements)
 <p>FFO/Net debt Objective: > 20%</p>	28%	FFO/Net debt Objective: > 20%		
<p>Interest cover Objective: > 3.5</p>	7.6	Interest cover Objective: > 3.5		
<p>Net debt/ (net debt + net equity) Objective: < 60%</p>	34%	Net debt/ (net debt + net equity) Doelstelling: < 60%		
<p>Solvency Doelstelling: > 30%</p>	56%	Solvency Doelstelling: > 30%		
 <p>Socially Responsible Procurement² At least 65% of our procurement is socially responsible.</p>	66%	At least 68% of our procurement is socially responsible.	In 2020 arrangements are in place with at least 80% of our suppliers about the CO ₂ performance of their own operations and the products or services to be delivered to Alliander. 40% of our materials are purchased on the basis of circular procurement.	
 <p>CO₂ emissions from business operations³ CO₂ emissions are a maximum of 784 ktonnes.</p>	801 ktonnes	CO ₂ emissions are a maximum of 704 ktonnes (according to a sector-wide calculation method).	We strive for climate-neutral operations in 2023.	

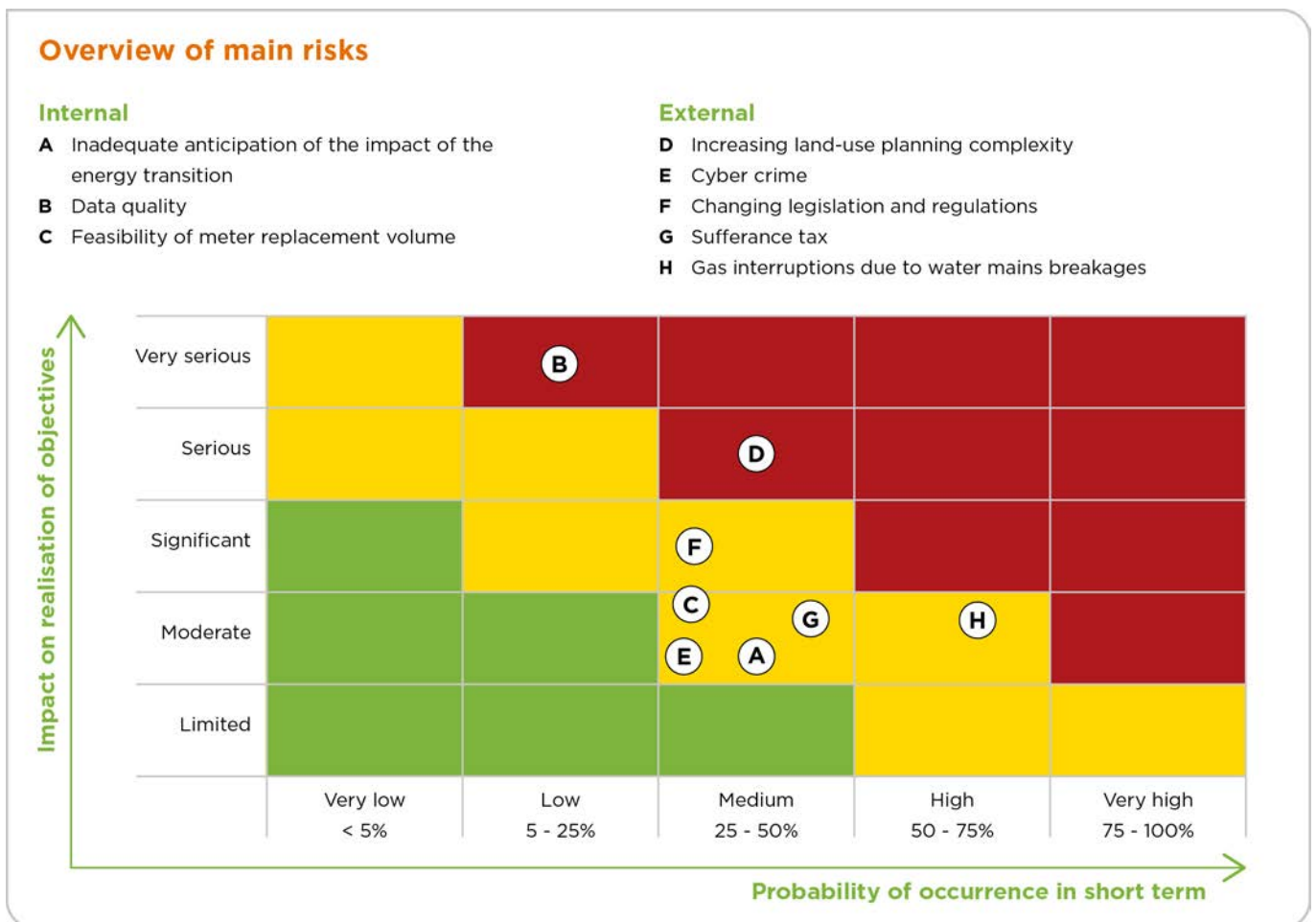
- Concerns Liander
- Concerns Alliander excluding Endinet.
- The CO₂ emissions objective for 2015 was calculated according to the most recent emission factors.
- The outage duration in 2015 of 21.9 minutes is based on low, medium and high voltage. The 2015 objective is based on low and medium voltage. The result for 2015 including only low and medium voltage is 20.1 minutes. The 2016 objective includes high voltage.
- The target for 2016 is based on how many employees have achieved a safety proficiency level of at least 3.
- The risks chapter clarifies the risks in more detail

Risks

Our main risks

We manage our risks throughout the year and take measures wherever necessary and desirable. The identification, assessment and control of risks and transparency about these risks help the entire organisation to achieve objectives in a responsible manner, comply with laws and regulations and make operational adjustments and improvements wherever necessary. We make a distinction between the internal risks we run as a result of our own actions and external risks that stem from developments in the world around us. The main risks are discussed frequently with the Management Board and on a quarterly basis with the Supervisory Board. The possible impact on our strategic objectives and the probability of their occurrence determine what our main risks are.

To measure the financial impact, we apply the following bandwidths over a five-year horizon: risks above €50 million are qualified as serious to very serious and risks below €25 million are qualified as moderate to low. However, risks can also have an impact on our other corporate values: safety, quality of supply, sustainability, customer & image and legislation & regulations. That is why we also keep a close eye on whether risks have an impact on these perspectives. The risks are shown on a net basis (i.e. after mitigating measures).



For a detailed description of the risks, the development of the risks and the risk mitigation strategies, see below under 'Notes to risks'. Financial risks, including our credit risk, are explained in note 34 to the financial statements. For an extensive description of all our most important operational asset risks, please refer to the Quality and Capacity Documents that are prepared every two years. These are posted on www.liander.nl/kcd (in Dutch only). The Corporate governance, Statement by the Management Board and Other information chapters provide more information about how the management of risks forms an explicit part of the organisation's control and decision-making structures. More general information about risk management can be found on the website alliander.com.

Notes to risks

This explanation of the most important risks is an integral part of the annual report. The extent to which Alliander is prepared to run risk in the realisation of its objectives differs per risk category. The arrows behind each risk indicate whether a risk has increased, remained unchanged or decreased compared to last year.

Risk category	Alliander's risk acceptance
Strategic risks	<i>Medium</i> : We seek the right balance between risks and long-term ambitions
Operational risks	<i>Low</i> : We accept no risks regarding the safety of our employees and our networks <i>Medium</i> : The risk acceptance relating to the effective and efficient use of assets in our operational processes is based on cost-benefit assessments
Financial risks	<i>Low</i> : To maintain a solid financial basis, meet the set financial criteria and fulfil our corporate social responsibility, we have a low acceptance of financial risks
Compliance risks	<i>Low</i> : We comply with laws and regulations and act in accordance with internal procedures and the Alliander Code of Conduct

Internal risks

A. Inadequate anticipation of the impact of the energy transition →

What is the risk?

The energy market is undergoing rapid transformation. We see diverse trends that impact network operators. In terms of capacity demand, we note the accelerating adoption of electric transport and the increasing use of heat pumps. On the supply side, there is a growing trend towards renewable self-generation, particularly in the form of solar energy. Timely anticipation of the impact of these developments is important to continue meeting the energy demand. The most important possible consequences of this risk are divestments and the failure to meet customer needs in time.

How is it managed?

Alliander plays an active role in the ongoing transition within the energy sector. Apart from gathering the required knowledge through new activities, we also take responsibility by sharing this knowledge with wider society. We anticipate events by engaging in a dialogue with our most important partners to gain timely insight into, for instance, the future development of the gas network. In the area of tariffs, we seek solutions to ensure the accessibility, affordability and reliability of energy during and after the transition across all types of energy. We also explore ways of optimally facilitating the behaviour and distribution of energy users, with a key focus on achieving the lowest possible social costs for everyone. Our data-driven network is an important source of information for this purpose.

B. Data quality ↓

What is the risk?

We record information on the type of materials, dimensions and locations of our networks. This is aimed at the continued assurance of their quality and availability. In addition, we keep track of administrative data that are important for the services to our customers. If the quality and integrity of our network data and the address, meter and contract data of our customers are insufficiently assured, the reliability of our services may be compromised and our operating expenses may become too high.

How is it managed?

Last year, Alliander implemented an improvement programme to enhance the quality and reliability of our data. Liander also carries out checks into the completeness of the data traffic processing by EDSN (Energy Data Service Netherlands, which is responsible for facilitating the handling of administrative processes between the various market parties).

C. Feasibility of meter replacement volume ↓

What is the risk?

The volume upscaling for the large-scale offering of smart meters (GSA) will mainly take place in 2016. Preparing the internal organisation, processes and systems is a major challenge. This upscaling period coincides with the launch of a new type of meter, the introduction of a new network to enable communication with the smart meters, as well as an intensification of the cooperation with the new contractors who have been engaged for the GSA. These aspects result in a complex programme on an unparalleled scale for us as a network operator. If this project is not expertly managed, we may not be able to offer all households within Liander's service area a smart meter by the 2020 deadline. This, in turn, could damage our reputation.

How is it managed?

Drawing on experiences of network operators abroad and market expertise, we made thorough preparations for this complex operation. All necessary chain processes, from overall control to operational work processes at the contractors, are now in place. This provides a stable basis for the upcoming project. A reduction of dependencies in the programme has led to risk mitigation. Examples are the formation of safety stocks of currently available meters and flexible capacity arrangements with the contractors. In addition, back-up plans and calamity procedures have been devised to deal effectively with unforeseen events. The progress of production is monitored on a daily basis and, finally, ongoing evaluation of our own performance as well as that of our chain partners should ensure that experiences and lessons are swiftly translated into improvements.

External risks

D. Increasing spatial planning complexity →

What is the risk?

In densely populated areas the available space for our infrastructure is limited, both above and below ground. Moreover, requirements regarding visibility of above-ground infrastructure and proximity to residential areas are being tightened. This is making it increasingly difficult for network operators to find routes and locations for the infrastructure, resulting in higher costs.

How is it managed?

We maintain intensive contacts with the stakeholders (such as local residents, municipalities and provinces) and assess the spatial planning developments. We have also recruited employees who focus specifically on the planning aspects involved in the management of our assets.

E. Cybercrime →

What is the risk?

One crucial cybercrime development is the ongoing professionalisation of malignant viruses (malware). This is clear from the strong proliferation and improving quality of ransomware, such as CryptoLocker. This malware encrypts vital data on local disks and network disks, which are then only unencrypted on payment of a ransom. As a result, the organisation may lose control over important parts of the network. In addition, viruses can enter our systems through the computers of employees. Cybersecurity is also a key issue because of the ongoing digitisation of our energy networks and above-ground assets.

How is it managed?

This development compels us to place an extra focus on detection and rapid response. Our permanent integrated security management system monitors risks and periodically tests the security measures. We worked on zoning within our network to ward off threats such as attacks, intruders, undesirable content and viruses and to prevent their dissemination in our systems. More than 80% of the Alliander employees have completed the basic security awareness training. The crisis organisation is giving the large-scale roll-out of the smart meter priority in practice drills. We also work intensively with the central government's National Cyber Security Centre to pick up external signals of attacks at an early stage. Alliander maintains close ties with the European Network for Cyber Security (ENCS). We continue to monitor the nature and speed of external developments in order to establish what initiatives are necessary to keep our operations as safe as possible.

F. Changing legislation and regulations ↑

What is the risk?

Most of our activities are regulated. This concerns the electricity and gas connection and transport services and the metering services for small consumers. Substantial changes in legislation and regulations may compel us to adjust our ambitions or operations in order to remain compliant. During 2015, for instance, the drafting of a new Act ('STROOM') prompted Alliander to carefully review its activities for compliance with the proposed legislation. Late in 2015, the bill was rejected by the Dutch Senate, after which an amended legislative proposal was put to the Dutch House of Representatives.

How is it managed?

We engage in a proactive dialogue with the government about legislative and regulatory developments relating to network operation and give our views on proposed changes. Our knowledge experts make scenario calculations and assess the possible impact on the performance of our tasks. In addition, we are working to improve the regulatory awareness within the organisation.

G. Sufferance tax ↑

What is the risk?

The costs of sufferance tax - the municipal levy that Liander is charged for using publicly-owned land - continue to increase. In the past five years, these costs have risen fourfold as a growing number of municipalities are imposing this levy on network operators. These costs are passed on in the tariffs. The local levies generically increase the tariffs for all customers, although sufferance tax is only levied by a limited number of municipalities. For this reason, Liander is opposed to sufferance tax.

How is it managed?

Amendments to the legislation on sufferance tax have been under preparation for some time, but have so far failed to materialise. Pending these amendments, Liander initiates legal proceedings wherever it believes that sufferance tax is unjustly levied.

H. Gas faults due to water mains breakages ↑

What is the risk?

Since June 2014, we faced four major gas interruptions due to breakages in the nearby water mains. As a result, hundreds of customers were left without gas for periods ranging from several days to a whole week. In all cases, this led to the gas network being contaminated with water and sand after a combination of breaks in water mains and gas. A water main breakage can wash away the sand beneath nearby pipelines, after which the gas pipelines are released to hang, bend and break. The force of the water causes that the local gas network is flooded with mud. The directly affected are financially compensated. An additional concern is the increased reputation risk if there is a recurrence of these faults.

How is it managed?

Together with all water mains companies, we performed an analysis of the high-risk locations. See also the chapter 'What have we learned?' With Vitens, the water company that was involved in all interruptions so far, we compared the network data with the gas mains data in order to identify the areas most at risk. Vitens engineers did a special training course in preventing the occurrence of gas mains breakages at the location of burst water mains. In Apeldoorn, which was hit by two prolonged interruptions, Liander and Vitens are now working intensively together to replace both the water and gas network.



Our results in
2015

Customers

Energy is everywhere: at home around the kitchen table, when shopping online, or at Schiphol International Airport. Our customers count on an uninterrupted energy supply, so we learned from our dialogue with them. And they expect Alliander to play an important role in their transition to other energy sources.

This chapter is about what we do for the customer stakeholder group. Our customers identified the following subjects as important to read about in the [annual report](#): energy transition, energy generation, energy storage, reliability of supply, innovation, tariffs, smart networks and customer satisfaction. All these subjects are covered here.

Objectives and results related to customers

<p>Customer satisfaction </p> <hr/> <p>2015 OBJECTIVE</p> <p>Outperform a benchmark of Dutch network operators</p> <hr/> <table border="0"> <tr> <td>2015 RESULT CONSUMER</td> <td>2015 RESULT BUSINESS</td> </tr> <tr> <td>103%</td> <td>95%</td> </tr> </table>	2015 RESULT CONSUMER	2015 RESULT BUSINESS	103%	95%	<p>Electricity outage duration </p> <hr/> <p>2015 OBJECTIVE</p> <p>22.0 minutes</p> <hr/> <p>2015 RESULT</p> <p>21.9 minutes</p>	<p>Digitisation programmes </p> <hr/> <p>2015 OBJECTIVE</p> <p>at least 90%</p> <hr/> <p>2015 RESULT</p> <p>64%</p>
2015 RESULT CONSUMER	2015 RESULT BUSINESS					
103%	95%					
<p>Realisation of smart meter deadline </p> <hr/> <p>2015 OBJECTIVE</p> <p>at least 100%</p> <hr/> <p>2015 RESULT</p> <p>113%</p>	<p>Postcode areas with > 5 interruptions </p> <hr/> <p>2015 OBJECTIVE</p> <p>at most 17</p> <hr/> <p>2015 RESULT</p> <p>10</p>	<p>Most important projects </p> <hr/> <p>2015 OBJECTIVE</p> <p>at least 90%</p> <hr/> <p>2015 RESULT</p> <p>100%</p>				

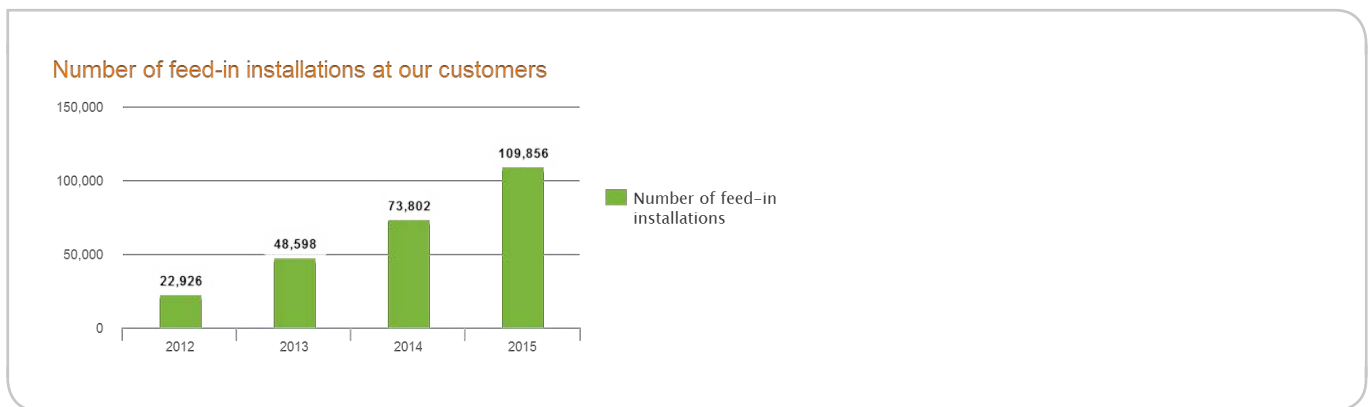
Working on reliable, affordable and accessible energy

Alliander provides over three million customers with access to energy and is readying the energy networks for a future of renewable energy. Our aim is to ensure that our services meet the needs of our customers where as possible, with a central focus on reliability and convenience. Consumers want to receive adequate and fast services, and have insight into their energy consumption and the price they pay. For business customers, energy is crucial for the continuity of their business. Together with the network operator, they also want to pursue sustainable ambitions in a cost-efficient manner. Alongside end users of energy, more and more market parties are looking to us for services and support. Examples are local renewable energy cooperatives in our regions and independent providers of energy services.

Energy must be available anywhere and anytime: at home around the kitchen table, when shopping online or at Schiphol International Airport. This is what we aim to deliver. We promise our customers three things: reliable, affordable and accessible energy. Based on this threefold commitment, our strategy focuses on four pillars to create value for our customers. These pillars are explained in this chapter.

Pillar 1: Alliander supports customers in making choices

Customers are gaining more and more influence over the energy system. For instance, an increasing number of customers are purchasing solar panels, wind turbines or biogas installations to produce their own energy. In addition, growing numbers of households and businesses are opting for electric transport or heat pumps. The challenge is to facilitate this decentralisation process, while minimising the total costs for everyone.



It is important to give them incentives to make choices that do not only work for themselves, but for the overall energy supply as well. More specifically, customers need to be encouraged to buy energy when supply is abundant, sell energy when it is scarce and refrain from using the energy network when it is congested. This calls for variable energy pricing (the scarcer energy is at a certain time of day, the higher the price) and flexible transmission tariffs (based on peak loads in the transmission networks) for all customers. This makes it attractive for customers to decide per 15-minute or hourly time slot whether they want to use, sell or store energy. Customers will only do this if it is really easy - which means that the decision-making process must be entirely automated.

Pilot with flexible tariffs

As a further step in this direction, we teamed up with the VEH Homeowners' Association and energy supplier Qurrent in 2015 to carry out a pilot where a small group of consumers are offered a smart energy contract, based on hourly rates for power and daily rates for gas. Participants in the pilot can see the hourly prices for the next day via an app and plan their usage accordingly. Good planning can produce considerable savings. This gives customers a financial incentive not to use the network at peak times, which, in turn, helps us to prevent costly investments in network upgrades. The smart meter, which enables the customer to track his usage, is a crucial link in this project. Read more about the smart meter under pillar 3.

Sun City ('Stad van de Zon')

The migration towards renewable energy calls for a smart energy market, where customers can plan their energy usage according to the availability of e.g. wind or solar power. Alliander, together with several partners, has set up the Universal Smart Energy Framework (USEF) for this purpose. Using an international market standard, USEF makes energy flexibility a tradable commodity. USEF describes the structure and mechanisms of the flexibility market, the market roles and the interaction between these roles, among other aspects.

In 2015, we started a pilot with USEF in a residential area in Heerhugowaard where a lot of local solar electricity is generated. In this neighbourhood - aptly named Sun City - 200 households are connected to an energy system that communicates with smart in-home appliances such as electric boilers or heat pumps. The system forecasts the supply and demand of electricity so that participating households can plan their energy usage. For instance, they can use solar power to heat water in their boiler during the day and store it for a hot shower in the evening. And they do not need to do anything themselves: the smart system automatically instructs the appliance to store or use energy at the correct time. This results in substantial savings; in the future, these savings can be passed on to households. Within the pilot, the financial benefit is divided among the 200 participating households every month.

Energy storage

As noted, matching supply and demand of electricity is becoming more difficult. Storage is one solution that can help us manage peaks and troughs. The possibilities for storing energy are still limited, but we are closely monitoring the rapid advances in this area. Through alliances and experimental projects, we can assess the impact on our work and the added value for customers. Apart from the technology, we are focusing specifically on how energy storage can add value for customers. Because added value is a key driver of progress in this area.

Pillar 2: Alliander invests in alternative open infrastructures

The construction of alternative infrastructures is one way of preventing costlier investments in the existing network. Consider, for instance, a scenario where a local community wants to install heat pumps in every individual home. In this case, the demand for electricity at peak times will rise sharply (especially on cold days). This would require a substantial upgrade of the electricity network. It is crucial to ascertain with all stakeholders whether this is the cheapest and most sustainable solution. An alternative infrastructure may be a better option. That is why Alliander is investing in the development of alternative energy networks. It is vital to keep this new infrastructure accessible ('open') to everyone under equal conditions. Universal access makes these networks more affordable, as the costs can be shared among more users. Added to this, facilitating the market forms an important part of our corporate social responsibility.

One of the activities we are focusing on is heating networks. In the reporting year, our first heating network was officially put into operation in Nijmegen by Minister Kamp of Economic Affairs. In the meantime, Alliander Duurzame Gebiedsontwikkeling (DGO) has worked on more new heating networks at other locations in the Netherlands, such as Boxtel, Haarlem, Venlo and Hengelo.

In addition, our business unit Allego invests in new charging infrastructure for electric mobility in the Netherlands, Germany and Belgium. Electric driving is gaining traction. The number of charging stations is growing rapidly in the Netherlands and Germany. Allego's concept is based on 'open' charging stations: you can fill up at any supplier. This new infrastructure also contributes towards efficient network management. In 2015, Allego installed new charging points at various municipalities in the Netherlands, and made arrangements for the installation of 220 charging stations in Berlin in Germany.

Another Allego initiative is its partnership with Vandebrom, an energy supplier where customers can buy clean energy direct from local producers. This partnership enables e-drivers to charge their cars with green power generated locally.

Pillar 3: Alliander digitises

Advancing ICT is rapidly unlocking new digital opportunities for managing our networks. Thanks to the installation of smart meters, sensors, remote-controllable switches and a telecom network, we can quickly detect and even prevent faults, make more targeted investments in the networks, and offer customers the data they need to make easier energy choices. Upgrading of the energy network can be limited in this way. Alliander has therefore opted for far-reaching digitisation of its networks, including the innovations necessary to achieve this.

In 2015, our objective of realising the most important digitisation programmes was only partly achieved (64%). The pilot preceding the large-scale roll-out of intelligent networks lasted longer than expected. Our strategic choice for far-reaching digitisation remains a key priority in the coming year.

How intelligent networks help our customers

Alliander has opted for extensive digitisation and innovation of its networks. This includes the installation of sensors, remote-controllable switches and a telecom network. This allows us to respond quickly and at acceptable costs to the radical changes taking place in the energy system. Another advantage of smart networks is their robustness. Smart networks are more reliable than the existing networks as the causes of interruptions are easier to find and resolve. The benefits for customers are reduced outage duration and a more customised service. But digitisation carries risks too. Hence our strong focus on cyber security. Alliander participates in the European Network for Cyber Security (ENCS) to promote the cyber protection of its networks.

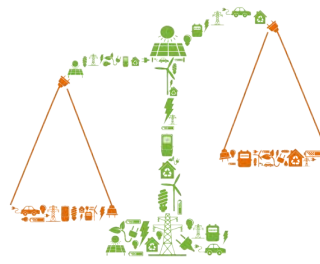
Smart meters

One crucial link in our efforts to create smart networks is the smart meter. In the coming five years, all our customers will be offered this new meter. Customers are increasingly making their own energy decisions. The smart meter helps customers to use energy when costs are low. Or to feed energy into the grid when the electricity price is high.

In 2016, we intend to offer the smart meter at almost 450,000 addresses. Last year we made intensive preparations for this large-scale roll-out and sought to minimise the risk of failing to meet the timelines agreed with the Ministry of Economic Affairs. As well as being remote-readable, our smart meter is also sustainable and 'fair'. Key procurement criteria included the use of sustainable materials, the origin of raw materials, the exclusion of child labour, and circularity.

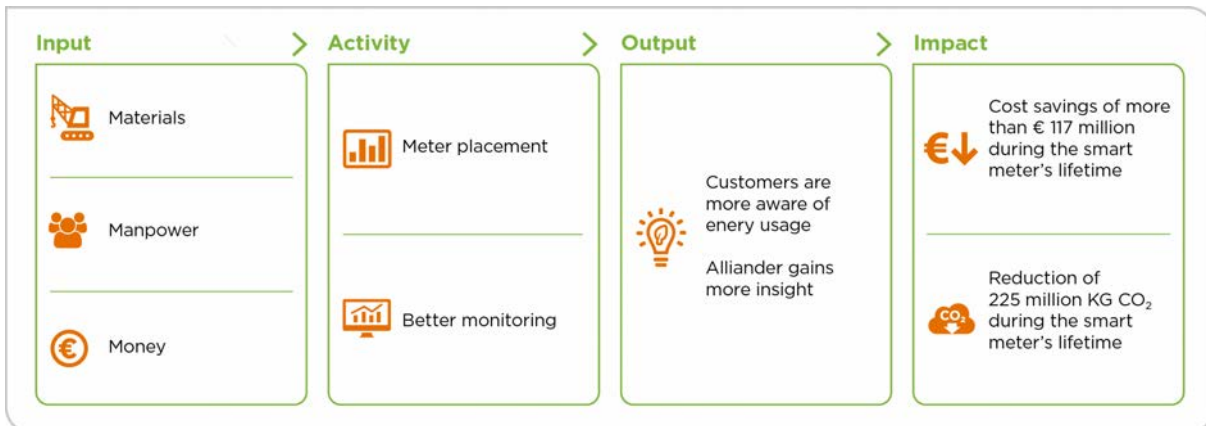
Impact of the smart meter

Combined with apps, the smart meter gives users insight into their energy consumption and how they can save energy. This is how the smart meter can help to reduce greenhouse gases. In 2015, Alliander installed about 280,000 smart meters. The aggregated emission savings during the lifetime of the smart meter can add up to about 255 million kg CO₂, equivalent to the CO₂ emissions from the energy consumption of almost 57,000 households! These numbers include the - extremely small - negative impact of CO₂ released during the production of the materials, the placement of the smart meter and the processing of the old meters.



Other positive effects are the cost savings arising from the lower energy usage of consumers and the reduction in administrative network losses. The annual potential saving for our customers is € 8.5 million. Discounted over the smart meter's 15-year lifetime, this works out at a cost reduction of more than € 112 million. The lifetime gain from the reduced administrative network losses amounts to about € 5 million, bringing the total savings to over € 117 million. Against these savings, there is an investment of € 50 million for the smart meters placed in 2015.

In the near future the positive impact of the smart meter will increase further when the data are used to track and monitor energy flows. This innovation, alongside the incentives for customers not to use the network at peak times, can help to avoid investments. These benefits further enhance the potential value of our smart meters. Needless to say, our use of the smart meter will at all times comply with applicable privacy and security laws.



Pillar 4: Excellent network management is the basis

Our energy networks are among the most reliable in the world and we will ensure they remain so in the future. Thanks to 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. Because the trust of our customers is important, both to performance our traditional daily work and to realise our new network ambitions.




Customers want a reliable and safe infrastructure. We are investing heavily to continue guaranteeing the robustness of our network. In 2015, we spent about €700 million on the maintenance, replacement and construction of our energy infrastructure. In the reporting year we completed our most important planned projects.

Dilemma: how long must we continue building gas networks?

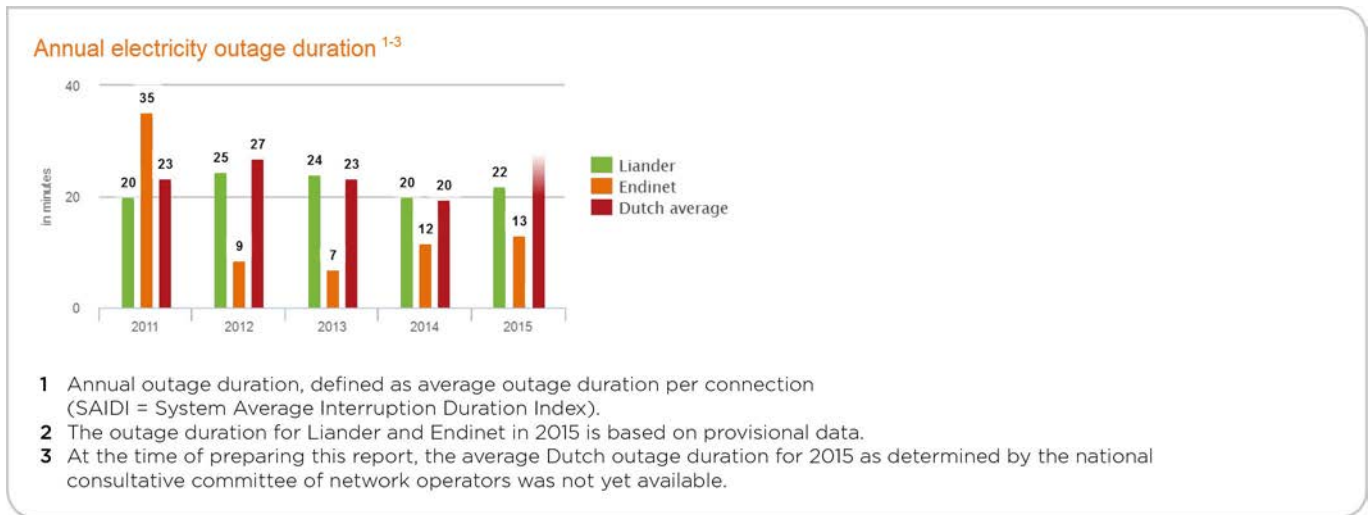
Every year we invest tens of millions of euros in the replacement and construction of gas networks. Looking at the trends and developments in the energy market, we foresee a more sustainable future with a falling demand for gas. Home insulation is improving, new-build housing is increasingly energy-neutral and electric heating (with e.g. heat pumps) is also gaining ground in new residential projects. Though we expect the use of gas to decrease, we still build new gas networks at our customers' request. Also for new-build neighbourhoods and projects. The construction of energy networks is a long-term investment for us, based on an estimated useful life of 40 to 50 years. If the Netherlands wants to be climate neutral by 2050, the gas networks must be replaced with alternative heating solutions within the next 35 years. Hence our question: how long and where must we still build gas distribution networks?

Our results in the regions

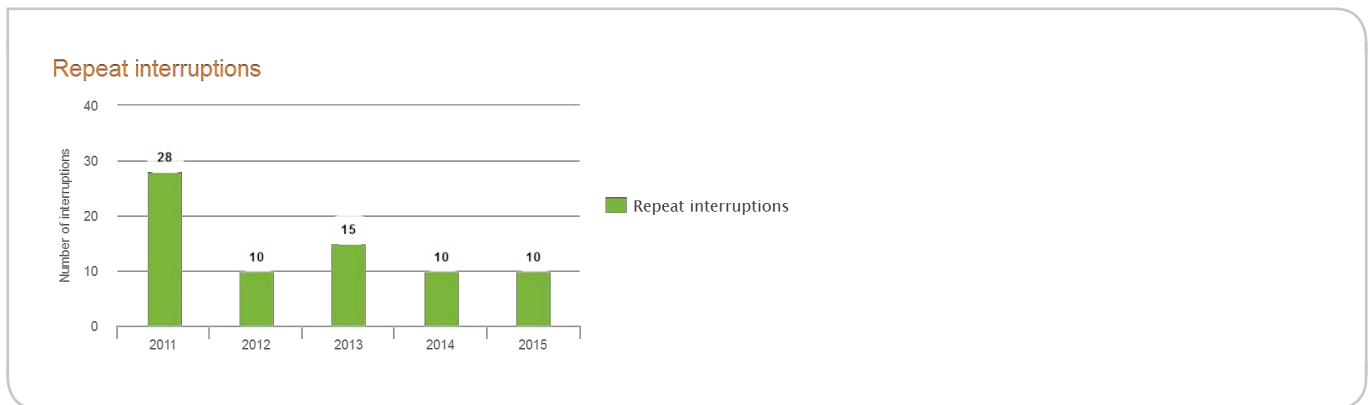
Our network investments are tailored to the specific needs and characteristics of each region. The Alliander Year Plan gives a region-by-region overview of our investments in the energy networks. Owing to lower-than-expected customer demand and overly ambitious project timelines, the investments were lower than planned in 2015.

Province	Electricity 		Gas 		Electricity + gas Total	Smart meters Placements 	Employees by region
	Expansion	Replacement	Expansion	Replacement			
Amounts in € millions							
Noord-Holland	43.7	25.5	7.9	25.4	102.5	105,130	1,143
Amsterdam	30.9	12.4	4.7	26.8	74.8	39,709	709
Zuid-Holland	21.9	16.4	4.4	13.4	56.1	25,460	155
Gelderland	43.4	13	11.5	23.3	91.2	90,690	3,109
Flevoland	6.4	0.8	1	1.2	9.4	8,535	106
Friesland	19.7	6.2	0.4	1.3	27.6	14,237	257
Noord-Brabant	1.8	5.6	0.6	8.5	16.5	24,709	283

Interruptions in 2015



Investments in maintenance are designed to maintain and improve the reliability of our energy supply. In 2015, customers were without electricity for 21.9 minutes (2014: 19.9 minutes) on average. We thus achieved our target (<22 minutes). In addition, the number of postcode areas with more than five interruptions per year was 10, well below our target (maximum of 17).



Power interruption in Noord-Holland

In the reporting year, we were confronted with a high-profile interruption in the electricity network. On 27 March, Noord-Holland and a small part of Flevoland were hit by a massive power outage. The cause was a short-circuit at a high-voltage station of TenneT in Diemen. The Liander area was the epicentre of the outage. According to the Association of Energy Network Operators in the Netherlands (Netbeheer Nederland), it was the biggest power outage in Dutch history, leaving one million customers without electricity for part of the day and causing severe disruption to daily life. The consequences of this major incident underlined the strong dependence of our customers on electricity.

Many smaller daily interruptions are caused by excavation work. To minimise the risk of excavation-related incidents, we provide detailed information on the location of our underground cables and pipes. We are also replacing obsolete parts of the network. And whenever interruptions occur, our engineers are ready 24/7 to remedy the fault as quickly as possible. New digital applications in the networks are increasingly enabling us to fix faults faster, and sometimes from a distance. One example is the 'Smart Cable Guard', which can prevent interruptions by detecting dormant defects in underground cables. This enables repairs at an early stage. The system makes it possible to reduce the number of power outages by 25%. This innovation was successfully tested in the networks in 2015 and will be applied more widely in the coming years.

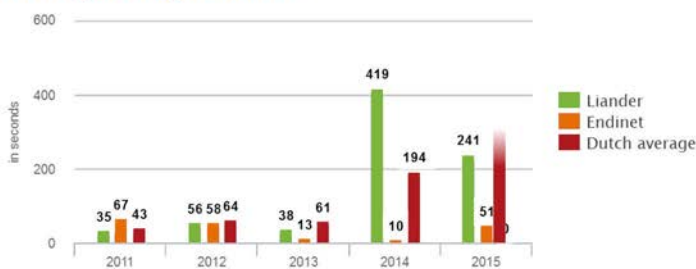
A deliberate interruption in Lochem

One unique event in 2015 concerned an interruption in Lochem. During a stress test at this location, we put the maximum load on the network, which resulted in an interruption. This joint initiative of Liander, the University of Twente and LochemEnergie was the first power supply stress test of its kind in the Netherlands. Such tests are vital, because the demand for electricity is expected to continue growing, particularly in view of the advance of electric driving and the intensifying use of electric household appliances and solar panels. For these reasons, the electricity network will have to cope with much larger loads than today.

Gas interruption in Velsen and Oldebroek

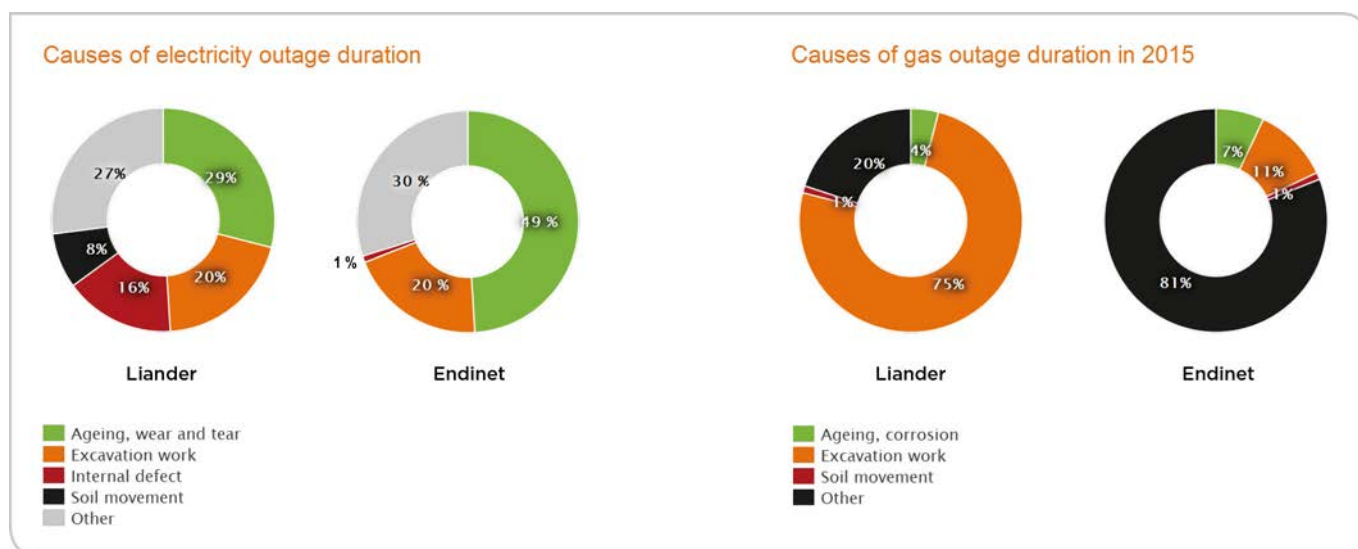
The average outage duration of the gas network in 2015 was 241 seconds per customer. This was largely caused by two major gas interruptions in Velsen and Oldebroek. On Thursday, 15 January, a gas mains in Velsen-Noord was damaged during works. The gas network was flooded with water and mud, leaving 1,150 households without gas. It took until Wednesday, 21 January, before all homes were reconnected to the gas network. In Oldebroek about 300 households found themselves without gas on Wednesday morning, 29 July. The gas interruption, which lasted two days, was caused by water and mud getting into the gas mains.

Annual gas outage duration¹⁻⁸



- 1 Annual outage duration, defined as average outage duration per connection (SAIDI = System Average Interruption Duration Index)
- 2 The outage duration for Liander and Endinet in 2015 is based on provisional data.
- 3 At the time of preparing this report, the average Dutch outage duration for 2015 as determined by the national consultative committee of network operators was not yet available.
- 4 57 seconds of the gas outage duration for Endinet in 2011 was caused by a heavy storm in Vught on 29 June 2011. Excluding this interruption, the outage duration in 2011 would have been 10 seconds.
- 5 54% of the gas outage duration for Liander in 2013 was caused by a major interruption in Ede, where water got into the mains.
- 6 94% of the gas outage duration for Liander in 2014 was caused by two major interruptions in Apeldoorn, where water got into the mains.
- 7 85% of the gas outage duration for Liander in 2015 was caused by two major interruptions in Velsen and Oldebroek.
- 8 69% of the gas outage duration for Endinet in 2015 was caused by burning fireworks in the sewer system in Olland.

Including the major interruption of 2014 in Apeldoorn, we have been confronted with three major gas interruptions involving a combination of gas and water mains breakages within one and a half years. In 2015, we teamed up with Vitens to reduce the risk of gas faults arising from burst water mains through the proactive replacement of gas and water mains in Apeldoorn. This operation comprises the replacement of 46 kilometres of water and gas mains in total. The work started in 2015 and will continue through 2017.



A successful SAIL 2015

During major events our contribution is crucial, though not always visible. Organisers of such events often call upon our experience. One example is the large national sailing event SAIL 2015, which required extensive prior preparations. Our work included installing traffic control systems along the busy routes to and from the event and setting up communication lines between the Liander crisis control team and the Amsterdam-Amstelland Regional Safety Authority. We also liaised closely with the local emergency services.

Network operation tariffs

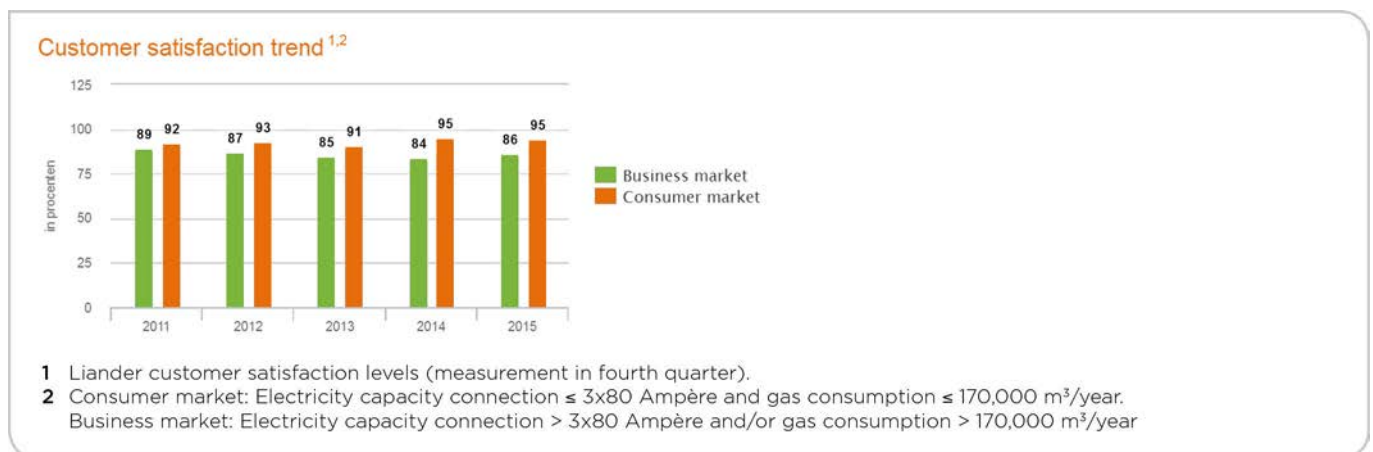
The network operators are tasked with providing energy transportation, connection and metering services. As this is an exclusive statutory task, the tariffs are regulated and the Netherlands Authority for Consumers & Markets (ACM) sets the permitted tariff level for the individual network operators.

The network operation tariffs for Liander in 2015 were comparable with those in the previous year. The tariffs would have been lower if they had not been taxed with sharply higher regional sufferance tax levies. The costs of sufferance tax - the municipal levy that Liander is charged for using publicly-owned land - continue to increase. These local levies generically increase the tariffs for all customers, even though sufferance tax is only levied by a limited number of municipalities. The sufferance tax paid in 2015 amounted to €110 million (2014: €80 million), working out at €37 per customer. This tax will be passed on in the tariffs in the coming years.

Alliander finds sufferance tax undesirable for two reasons. First of all, customers pay more tax without being aware of this because it is paid through their energy bill. Secondly, customers of municipalities that do not levy sufferance tax help to fund the budget of other municipalities. Late in 2015, the Dutch House of Representatives requested Minister Plasterk (Interior Affairs) to produce a legislative proposal for the abolition of sufferance tax as soon as possible.

Boosting customer satisfaction through an enhanced customer experience

Customer satisfaction is one of our most important objectives. Our direct contact with consumers and small business users has changed over the past years. Since the introduction of the statutory supplier model in 2013, the energy supplier has become the first point of contact for questions about the energy bill and meter readings. Network operators are still the first point of contact for questions about connections, interruptions or energy network maintenance. We are seeing that customers are not yet always sure who is responsible for answering their questions. We are working to make it as clear as possible for customers whom they must contact. Our customer satisfaction rating among consumers was 95% (103% versus the network operator benchmark), comparable with the score in 2014. Our satisfaction rating in the business market was 86% (95% versus the network operator benchmark), which was higher than in the previous year. The customer satisfaction is largely determined by the reliability of the energy supply. Clearly, customers want a service that lives up to the demands of our modern era. They expect energy to be available 24/7.



We find every contact with the customer important, including during the execution of our work. In 2015, we introduced a mobile centre to provide local residents with direct and personal information during prolonged interruptions. This mobile centre has already proved its usefulness, notably during the major gas interruption in Velsen.

In addition, we are increasingly expanding our online services. After the launch of the renewed Liander website in December 2014, further improvements were made last year to further enhance customer convenience. The Customer Effort Score rose to 73 in 2015 (year-end 2014: 59), notably thanks to the quality of the control information. The peaks in the visit to Liander.nl are caused by major interruptions. On average, the website attracts about 20,000 visitors a week. Encouragingly, Liander.nl came out tops in a benchmark survey comparing the large network operators on 8 key subjects. One aspect that was further improved in 2015 is the provision of information on interruptions. We now give more timely, correct and complete information.

Last year, the number of unique business partners making use of the MijnLiander environment for large business users jumped 89% (from 4,590 at year-end 2014 to 8,677 in December 2015). This went hand in hand with a rising number of customer actions performed within MijnLiander, including digital billing. Finally, in 2015 we also launched an entirely renewed Public Lighting Portal for municipalities and contractors (almost 600 users), which is suitable for tablet and smartphone. This renewed Public Lighting Portal is faster and more user-friendly.

Going forward: what you can expect from us

The world of energy is poised for revolutionary change. Expanding or upgrading the networks is not always the most appropriate solution. Apart from requiring time-consuming and costly operations, they do not always provide the best answers to the energy challenges of the future. That is why we are working with our customers to build the energy system of the future. In the Year Plan 2016, which was published on 5 January, you can read all about the activities and plans we are carrying out to empower our customers to make the right energy decisions - so that everyone enjoys equal access to reliable, affordable and renewable energy.

Employees

Every day, our 7,000 employees are hard at work ensuring a reliable energy supply. What they do really matters. Alliander wants to offer a safe working environment where employees can apply their knowledge, expertise and creativity.

This chapter explains what we do for one group of stakeholders, our employees. Our colleagues have indicated that they are primarily interested in information on health and safety at work. Given this, in this chapter we report on our performance in this area. For information on how the most important topics were identified, please see the [materiality analysis](#).

Objectives and results related to employees



A company that employees are proud of

Our employees are committed to ensuring a reliable, affordable and accessible energy supply, both today and in the future. We make ongoing efforts to build an organisation in which employees work in a professional manner, in a pleasant work environment and for a company they are proud of.

Health and safety at work

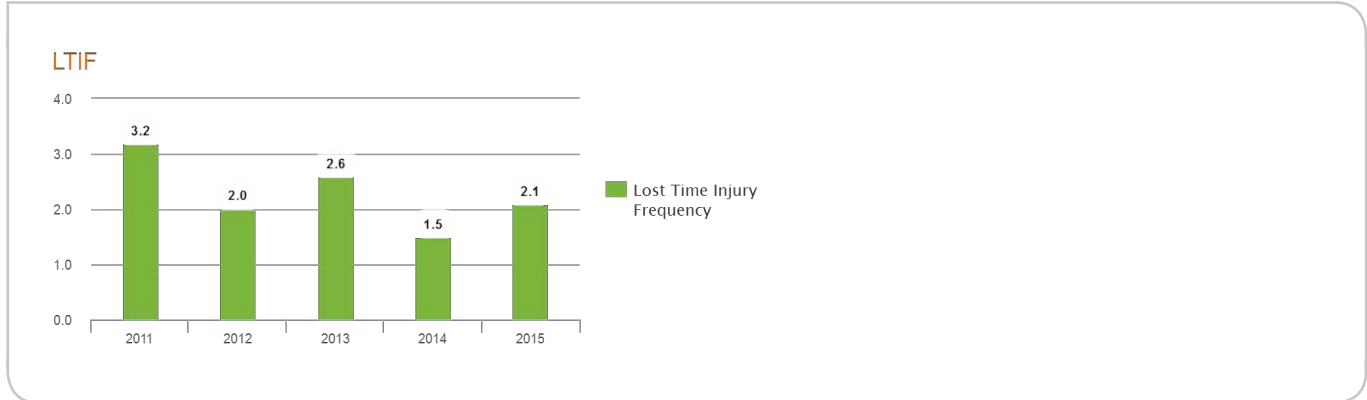


With respect to safety, Alliander's ambition is to ensure that everyone - our customers, colleagues and the parties we work with - returns home safely. We work hard every day to achieve this ambition, and to ensure that our customers have safe access to electricity and gas at all times. Working with gas and electricity entails risks to the health and safety of our employees, contractors and customers. Safety is therefore our top priority, and we make no concessions in this area.

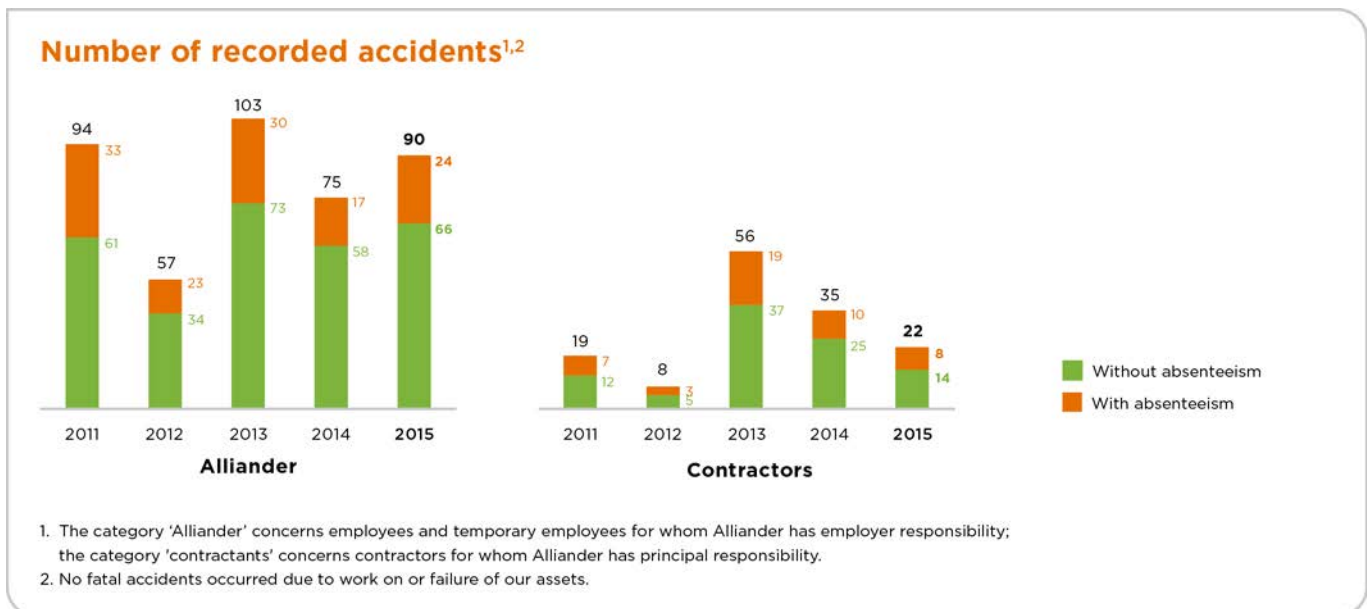
How we ensure safety on the shop floor

Safety is a spearhead of our company's strategy. We want safety to be our number one priority, in word and deed. This starts with a safe work environment, which we create by ensuring safe installations and networks, for example. A safe infrastructure forms the basis for our work. Second, safety at work also means creating the conditions necessary for ensuring and monitoring safety. This includes offering safety training, improving safety equipment and performing safety audits and measuring our safety. In 2015, for instance, we organised 1,755 safety training sessions (2014: 1,653). Third, safety at work is about conduct. In our day-to-day activities, we need to keep a continuous focus on safety. We do so by preparing thoroughly for possible safety risks prior to each job we do. We hold each other accountable for unsafe situations to keep each other safe. We work on being open and honest about incidents and near-misses, because this helps us to learn from our mistakes. This is the only way we can achieve our ambition of ensuring everyone returns home safely.

Monitoring safety



We measure our safety performance using the lost time injury frequency (LTIF) rate, which expresses employee safety as the number of accidents resulting in absenteeism relative to the number of hours worked. In 2015, the LTIF rate stood at 2.1 (2014: 1.5). There were 24 accidents that resulted in employee absenteeism. These included a number of serious accidents. In 2015, one technician sustained burns when carrying out electrical work at a water purification plant in Weurt operated by the Rivierenland Water Authority. The accident happened because he was asked to do work on top of the standard process, in the course of which an error of judgment was made. Other accidents include a serious accident at the Zuilichem regulating station, where a technician employed by a contractor sustained serious burns when he was hit by an electric arc. The investigation carried out into this accident revealed that at the time the employee was hit by the electric arc he was working in a part of the plant where he was not supposed to be, under the arrangements agreed.

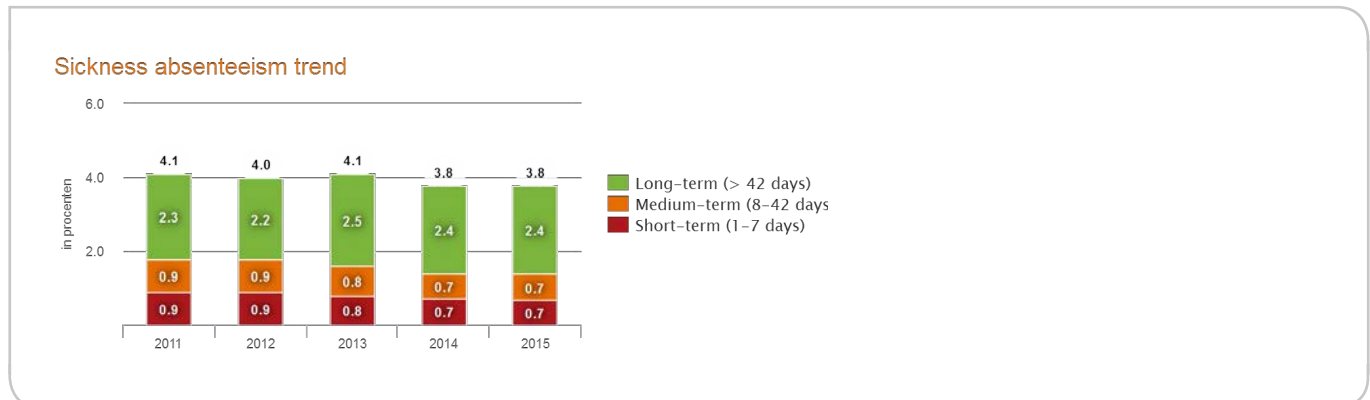


In addition, we actively monitor the safety culture that exists within our company. We do this by periodically investigating safety levels at a part of our organisation. The method we use for this is based on the safety ladder, a measuring tool used at many companies that is based on a scale from 1 (lowest possible score) to 5 (highest possible score). Although the safety ladder is based on a scale of five possible scores, we calculate our precise score to one decimal place. During the year under review, our score on the safety ladder was 3.1 (2014: 1.8). Our objective for 2015 was a score of 3 or higher. In order to achieve this, our company has actively developed a safety programme.

How we help employees remain fit and healthy

We believe it is vital that our employees remain fit and healthy. To this end, we have, among other things, established the "Alliander Vitaal!" programme. In this programme, we attempt to identify the chief complaints at a local level and bring them out into the open. Each business unit identifies the themes to be developed and in which areas the biggest challenges related to keeping employees fit and healthy at work are to be found. These themes may be related to aspects of physical health (neck, back, shoulder) or mental health (stress-related complaints, work/life balance).

Among other things, we conduct periodical medical examinations to monitor how we are keeping our people motivated and healthy. We also actively measure absenteeism due to illness. In 2015, the employee absenteeism rate was 3.8% (2014: 3.8%). The average for our sector in the Netherlands is 3.5%.



Our aim is to help employees get back to work as soon as possible. In the case of employees with a long-term illness, a recovery plan is developed in conjunction with the employee. In addition, we also offer the 'Present' package in conjunction with Zilveren Kruis. This package includes interventions, workshops and training courses related to the management of absenteeism, reintegration and prevention (e.g. psychological care and physical support).

Building a great place to work

Alliander endeavours to be a great place to work. A great place to work is defined as an organisation that employees trust, where employees are proud to work and where they enjoy working in teams. Every year, we measure our employees' perceptions regarding these aspects.

The 2015 survey had a response rate of 67% (2014: 64%). The level of the Trust Index was 73% (target: 75%), up 6% compared to the previous survey (2014: 67%). Employees indicated that they are particularly satisfied with their own work. As in 2014, the highest scoring dimension was 'pride', which stood at 77%, up 2% compared with 2014. The lowest scoring dimension continued to be 'credibility', which stood at 68% (2014: 60%), although it showed the greatest improvement. Managers and employees discuss the scores with each other in order to give meaning to them and decide on the next steps to be taken.

2015: celebrating the network company's centenary

Our network company was 100 years old in 2015, and that fact was marked with a number of activities for employees. An Energy Pop-up Museum for and by employees was opened in Radio Kootwijk. A special website was also developed where colleagues could share stories about the past, present and future, and a special radio show was made. A festival to thank all employees will be held in 2016.

Composition of our organisation

Alliander's employees include technicians and IT specialists as well as experts in the area of change management or finance. Each employee contributes to the achievement of the organisation's goals from their own area of expertise.

In 2015, we employed 7,240 people. In recent years, the proportion of women holding leadership positions increased to 25.6%. When vacancies for leadership positions are advertised externally, the candidates put forward include at least one woman. Although energy technology is one of the top 10 occupations dominated by men, we endeavour to have a diverse workforce. We have seen that diversity leads to better decision-making and improved collaboration. Moreover, we believe that our colleagues should be able to be themselves, irrespective of their gender, age, cultural background, religion, nationality and sexual orientation.

Agreement on new collective labour agreement for network companies

In October, the delegations from WENb and the unions reached a deal on a new collective labour agreement that will expire in 2018. The network companies face a joint challenge. The energy transition causes positions, roles and requirements made of employees to change. Ageing and a shortage of technical and IT personnel in the labour market are two other important factors. The key objective for the network companies to create a flexible workforce, both within the companies and in the labour market. To achieve this, the different companies are agreeing on a preventative approach to redundancies. Based on this approach, employees are given the opportunity to enjoy training, stay healthy and have a sustainable career.

Career centre offers new perspectives

The fact that our organisation is in flux is reflected in such developments as the increase in the number of employees who have become redundant. In 2015, 141 (2014: 111) colleagues were declared redundant and a total of 152 (2014: 167) had registered with the career centre, which is designed to bring together job supply and demand in the company. In 2015, the career centre helped 19 (2014: 18) people find a new job or a new perspective.

"The employee representation body looks back on an eventful year. One of the key issues was the re-parcelling operation with Endinet and Enexis. After an intensive process, we took leave of our Endinet colleagues and welcomed our new Enexis colleagues. Together, we achieved a good result for both the employees involved and for the companies. Secondly, I would to mention the elections for the new Alliander Works Council. The Central Works Council and the Liander Works Council have been integrated into this new Alliander Works Council. The Works Council has a flat hierarchical structure and wants to present itself in 2016 as a streamlined employee representation body. But the rest of our company was on the move as well. In 2015, we received a total of 28 requests for a formal opinion and consent."

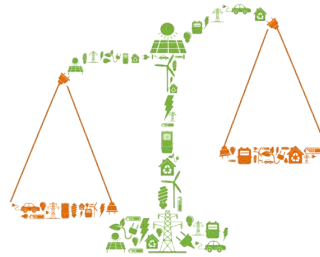
Wouter Koks, chair of Alliander's Central Works Council

Step2Work: an opportunity for everyone

Our Step2Work programme gives people at a distance from the labour market a better chance of finding a job. In 2015, we offered apprenticeship-based jobs to a total of 103 youngsters, over-50s and people with a physical impairment. In keeping with the Dutch Participation Act (Participatiewet), which took effect on 1 January 2015, during the past few years we have carried out this programme in cooperation with municipalities, training organisations, the UWV Employee Insurance Agency, our suppliers and other companies both within and outside the energy sector.

Impact of Step2Work

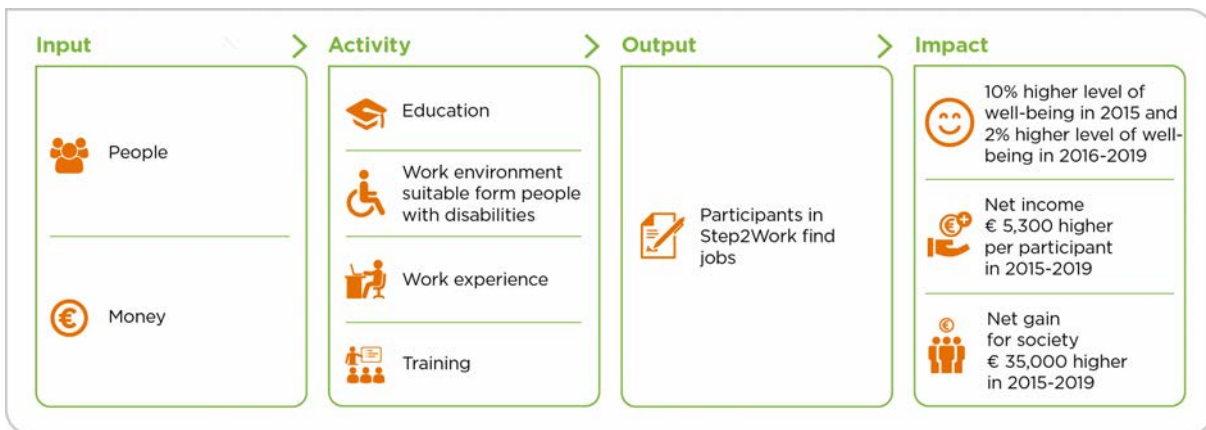
Every year, approximately 90 people participate in the Step2Work programme. In 2015, 103 people started the Step2Work programme. The programme has a positive social impact on participants, and also produces financial benefits for Dutch society. This is because the Step2Work programme provided work for participants in 2015 and because participating in the programme increases their chances of finding a job in the future. In total, 59% of the people who start the Step2Work programme find a job as soon as the programme ends.



In the case of participants who complete the programme, this figure is 68%. Moreover, for several years after completing the programme participants have a greater chance of finding a job than if they had not participated in the Step2Work programme.

Following the Step2Work programme produces a 10% increase in wellbeing and is expected to produce a 2% increase in wellbeing in the four years following the completion of the programme. This is because the Step2Work programme increases the net income of participants (the total increase has been estimated at €5,300 per participant during the period 2015-2019) and because having a job also produces non-financial benefits, such as an improved sense of self-esteem and social contacts made at work.

There are no costs associated with Step2Work for Dutch society, and the programme even has a small positive financial impact. This impact has been estimated at a net benefit of €35,000 for the period 2015-2019. The positive impact is greatest for government authorities, as they receive more taxes, do not need to pay as much in benefits, and incur fewer costs in respect of re-integration.



Going forward: what you can expect from us

In 2016 we will work hard to ensure the energy supply of today and tomorrow. In this context, our distribution area changed with effect from 1 January 2016. As a consequence, we gained a number of new colleagues and also had to let a number of colleagues go.

Our ambition for 2016 is to remain a top-class employer: an innovative and successful company where develop future-oriented knowledge and competences. Furthermore, we will continue to work hard to ensure a safe and healthy work environment. We also want to increase the number of women in leadership positions to 26% in 2016. Currently, one quarter of leadership positions are held by women. Finally, we intend to offer a further 100 work experience placements for people at a distance from the labour market. More information about our plans and objectives for 2016 can be found in the Alliander Year Plan 2016.

Shareholders and investors

As a major energy network company, there is a socially important dimension to our role in the Dutch economy.

This section is aimed at stakeholders in our enterprise with financial interests and with interests on corporate social responsibility. We want to provide information of importance to them in the best possible way. The information they find important relates to energy consumption and CO₂ emissions, transparency, supply chain responsibility, compliance with financial policy and financial performance.

Objectives and results relevant to shareholders and investors

Rating



2015 OBJECTIVE

To retain a solid A rating profile on a stand-alone basis

2015 RESULT

S&P AA-/A-1+/stable outlook
Moody's Aa2/P-1/stable outlook

Socially Responsible Procurement (SRP)



2015 OBJECTIVE

65% minimum

2015 RESULT

66%

CO₂-emissions from company operations



2015 OBJECTIVE

784kt max

2015 RESULT

801kt

FFO/Net debt



2015 OBJECTIVE

>20%

2015 RESULT

28%

Interest cover



2015 OBJECTIVE

>3.5

2015 RESULT

7.6

Net debt/capitalisation



2015 OBJECTIVE

<60%

2015 RESULT

34%

Solvency



2015 OBJECTIVE

>30%

2015 RESULT

56%

How finance and sustainability go hand in hand

Financial policy and dialogue with stakeholders

Our financial position allows us to invest in our networks, to be flexible and to grow the business. This in turn enables us to pursue our strategy and to play a facilitating role in the energy transition. Our financial policy is essentially aimed at maintaining a solid A rating profile as a minimum.

There is evidence that sustainability considerations are featuring more and more in the deliberations of shareholders and other investors alongside sound financial policy. Alliander supports the importance being attached to sustainability and the company's sustainability targets are therefore playing an increasingly prominent role in the management of the business.

Open dialogue

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.

Financial policy

Financial framework

Alliander's financial framework is formed by the ratios FFO/net debt, interest cover, net debt/net debt plus equity and solvency. These ratios coupled with the norms against which they are measured are crucial in obtaining and retaining a solid A rating profile on a stand-alone basis. In a departure from IFRS, when calculating the ratio's, the subordinated perpetual bond loan issued in 2013 is treated as 50% equity and 50% borrowed capital. In calculating the ratios, the classification of 'non-current assets held for sale' (IFRS 5) as regards Endinet group is ignored.

Ratios based on Alliander's financial policy

	norm	31 December 2015	31 December 2014
FFO/net debt ¹	> 20%	28,1%	34,0%
Interest cover ²	> 3.5	7,6	7,6
Net debt/(net debt + equity)	< 60%	34,3%	33,6%
Solvency ³	> 30%	55,7%	53,6%

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

As at 31 December 2015, the FFO/net debt ratio amounted to 28.1% (year-end 2014: 34.0%), compared with a minimum value of 20%. The decrease is mainly accounted for by a lower operating profit and a higher net debt position.

As at 31 December 2015, the interest cover ratio worked out at 7.6, which is unchanged compared with the 2014 year-end figure. Although the comparable operating profit was lower, interest expense was down by a matching amount. 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 2015 amounted to 34.3% (year-end 2014: 33.6%). Alliander's financial policy stipulates that this ratio should not exceed 60%.

The solvency ratio as at 31 December 2015 amounted to 55.7% (year-end 2014: 53.6%), compared with a minimum of 30%. The rise compared with 2014 is mainly due to an increase in shareholders' equity relative to unchanged total assets excluding capitalised construction contributions.

Dividend policy

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

Investment policy

The investment policy is consistent with the financial policy and is part of Alliander's strategy. Elements of investment policy include compliance with regulatory requirements relating to investments in the regulated domain, 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 task.

Stakeholder dialogue

Shareholders

All of Alliander's shares are held directly or indirectly by Dutch provincial and municipal authorities. A full list of the shareholders can be found on the Alliander website (www.alliander.com). The authorised share capital of Alliander N.V. is divided into 350 million shares with a nominal value of five euros. All the shares are registered shares. As at 31 December 2015, there were 136,794,964 issued and paid-up shares. Contact with shareholders primarily takes place in shareholders' meetings. However, Alliander also believes that it is important to have contacts between the company and the shareholders outside of the shareholders' meetings, on a bilateral basis or in a wider forum. A summary of the various shareholder dialogue structures can be found in the section covering corporate governance.



Alliander's shareholders are provincial and municipal authorities and one of them is Friesland. An interview with Sander de Rouwe, the Friesland Provincial Executive.

How were your dealings with Alliander in 2015? As a shareholder, what is your view of the relationship, looking back over the year?

As major shareholders we are kept informed in a transparent manner by the Management Board and the Supervisory Board concerning the more important developments affecting the company several times a year. The lines of communication are short and that suits us fine.

A particular matter this year concerned the exchange of areas served, involving the transfer of the Enexis networks in Friesland to Alliander. How do you view that change and how did the operation go?

The exchange of networks between Alliander and Enexis had been on the cards for some considerable time. In the run-up to the final decision we looked particularly closely at retaining jobs and what the effect on customers' bills would be. There were many areas in Friesland where both network operators were active. We are assuming that Alliander and Enexis were able to derive the usual synergistic gains from the transaction. The actual exchange, which became effective on 1 January 2016, means that Liander is now the sole network operator in Friesland for both the electricity networks and the gas distribution systems, with the exception of a few areas in the north-east of Friesland, where Stedin operates the gas networks. For an even closer connection between share ownership and operational responsibility, it would be good if there was another exchange of the areas served, involving Stedin.

The energy supply system is undergoing change. The region has ambitions for sustainability. What role do you expect Alliander to play in the years ahead?

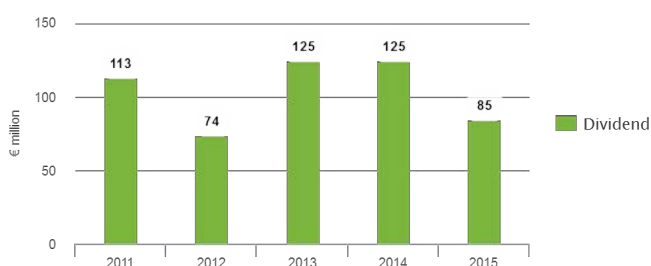
The energy transition in Friesland is making substantial progress, with solar farms like those on Ameland, a wind farm in the IJsselmeer, numerous energy cooperatives and whole villages that are going green. Alliander, too, has a contribution to make towards the transition, by becoming involved in the planning and implementation of these promising initiatives, so as to create broad-based support for the business case. This is already happening with various initiatives.

Proposed profit appropriation for 2015

The Management Board has determined, with the approval of the Supervisory Board, to add €149.8 million of the profit to other reserves. The remaining profit of €85.0 million is at the disposal of the General Meeting of Shareholders. This equates to 45% of profit after tax, excluding incidental items after tax that did not generate cash flows in the 2015 financial year.

The dividend for 2015 is down by €40 million compared with 2014, owing to a lower net profit for 2015.

Dividend

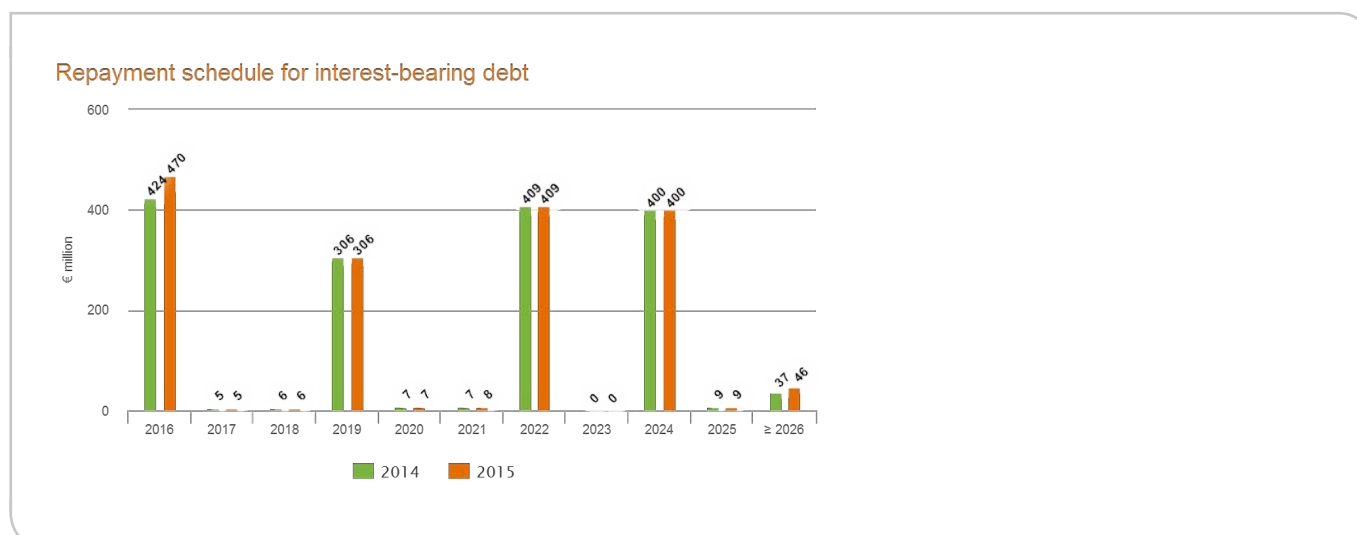


Institutional investors

A large part of our financing in the form of borrowed capital is provided by institutional investors in our bond issues, such as asset managers, insurance companies, pension funds and banks. These are professional players on the international financial markets. 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 we organised a roadshow in March 2015, visiting investors in Amsterdam, Paris and London to give presentations on the financial results and other relevant developments. An investor conference call was held in September 2015 for the same purpose. Topics covered on both occasions included the energy transition together with Alliander's role in this context and the impact on Alliander of the exchange of networks between Alliander and Enexis.

Interest-bearing debt

The repayment schedule for the interest-bearing debt as at year-end 2015 was as follows:



The amounts scheduled for repayment in 2016, 2019, 2022 and 2024 mainly relate to the bond loans. The other amounts relate to the repayment of shareholder loans and other loans. Alliander has a €3 billion EMTN programme. No new bonds were issued under this programme in 2015. As at 31 December 2015, the carrying amount of the outstanding bonds was €1,495 million (nominal value €1,500 million). Alliander has available an ECP programme totalling €1,500 million which can be used to issue short-term debt instruments. During the reporting period, Euro Commercial Paper denominated in USD was issued with an equivalent value totalling €467 million. The euro equivalent of this amount has been fully hedged. As at year-end 2015, ECP loans with a face value of €46 million were outstanding.

Banks

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

Rating agencies

In order to retain ready access to the capital and money markets, it is important for existing and potential financiers to have an accurate picture of Alliander's creditworthiness and associated credit ratings. Having a recognised credit rating is also an obligation under the terms of the cross-border lease contracts entered into at the end of the 1990s by Alliander's legal predecessors. Alliander has 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. In 2015, Moody's raised Alliander's long-term rating a notch while S&P kept both ratings and outlook unchanged. The credit ratings as at year-end 2015 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, as well as the exchange of networks with Enexis. In July, Moody's upgraded the long-term credit rating from Aa3 to Aa2 with stable outlook, and reaffirmed the short-term rating of P-1.

In October, S&P published a review of financing instruments taking the form of subordinated perpetual bond loans. An immediate consequence was that the equity weighting of a number of loans of this type issued by various international companies was reduced from 50% to 0%. This also included the subordinated perpetual loan of €500 million issued by Alliander in November 2013. After considering the interests of all parties involved, Alliander decided to waive a limited and specific part of the rights relating to this loan (see our website), whereupon S&P restored the equity weighting to 50%. Neither the changes made nor the restoration of the weighting factor had any effect on the ratings or outlook.

The annual reviews took place in October and November. 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. Given the recent publication by Moody's following the rating upgrade, this agency has not issued any new confirmation of the ratings.

Alliander's tax matters

The subject of taxation has received increasing publicity in recent years, with the fair share of tax paid by companies attracting public interest in particular, so what is Alliander's tax strategy?

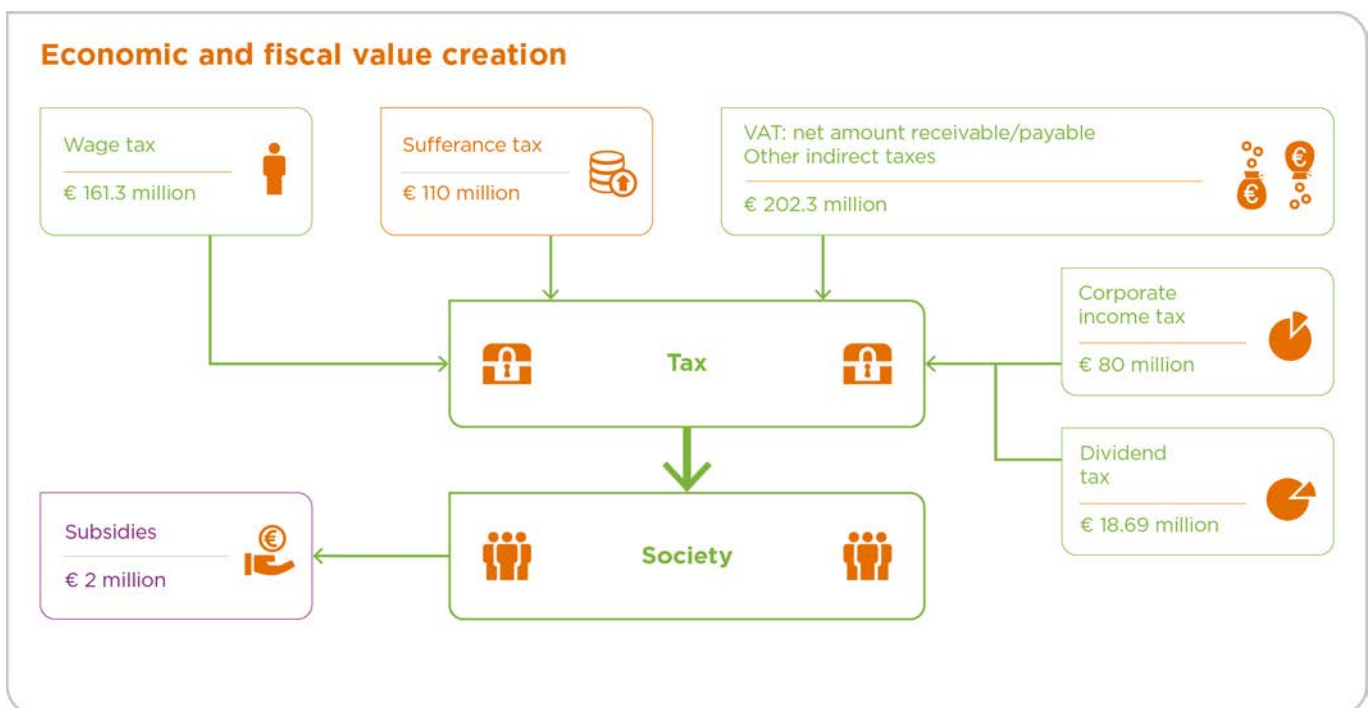
Alliander is very careful to discharge all its tax liabilities and obligations with respect to subsidies, having due regard to and in view of its involvement in society. Based partly on the dialogue with both our internal and our external stakeholders, the following mission has been at the centre of all our activities relating to tax and subsidies since 2009:

"We aim to be a committed and reliable taxpaying company that is proud of making 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:

- We comply with all primary and secondary legislation relating to tax and subsidies both at home and abroad. In interpreting the tax rules we follow the spirit of the law.
- We are transparent about 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, 'Rijksdienst voor Ondernemend Nederland', the Management Board, the Supervisory 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 fiscal awareness and culture within Alliander 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 taxes 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 and to observe the spirit and the intention of the law. 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 at the end of 2008. Against this background, Alliander strives to reach a prior 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 burden¹ in 2015 was 25.1% (2014: 22.4%). This represents an increase on the standard rate, compared with the preceding year. This is the combined effect of not recognising the loss reported by Alliander AG (increasing effect), utilising tax breaks available for capital projects (decreasing effect) and expenses that are disallowed for tax purposes (increasing effect). In calculating the tax burden, Alliander works on the principle of country-by-country reporting. 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 2015 reporting period, this was an amount of €80 million in direct taxation.

Additionally, 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 periodical payments made to the holders of the bonds issued in 2010 would count as deductible expenses 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 and an appeal is ongoing. The maximum exposure for Alliander is between €20 million and €30 million. Having consulted external experts, the Management Board decided not to recognise a provision in this respect.

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.

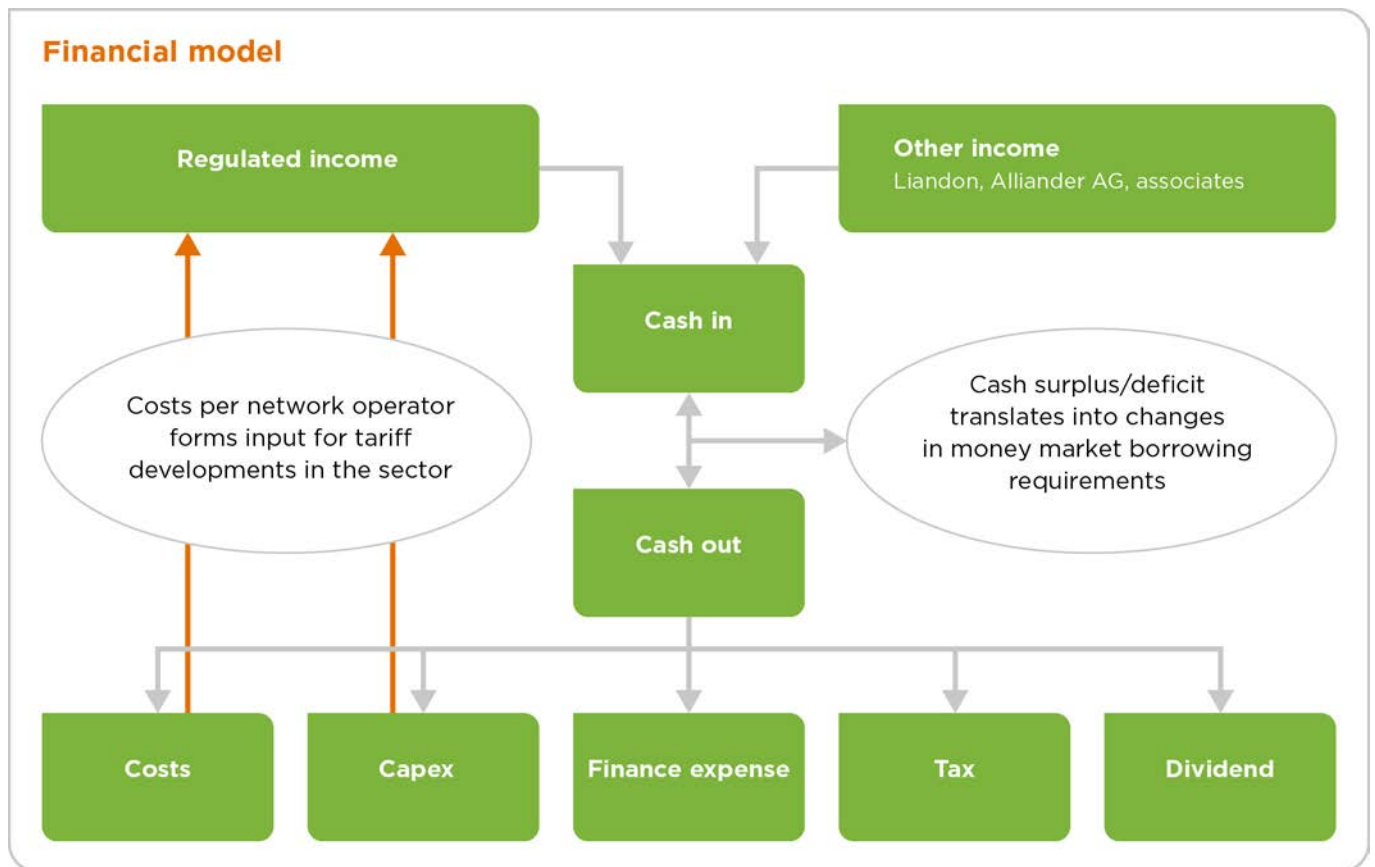
Outlook

At group level, Alliander has built up a robust and socially responsible tax policy in recent years. However, developments in the energy market (including greater internationalisation) make tax matters increasingly complex. Our 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.

1. The tax burden expressed as a percentage of the profit before tax excluding the profits after tax from associates and joint ventures.

Financial results in 2015

There are various parts to our financial model of income and expenses, as charted below.



Notes on the main cash flows within Alliander

Alliander's revenue is made up of approximately 85% income from the regulated activities of Liander and Endinet and 15% other income, the latter being income from the activities outside the Netherlands, income related to new activities and other income such as from the rental of large-user meters and transformers and income from the activities of other companies both inside and outside the regulated energy sector. The network operators will each be publishing their own annual report on their performance in 2015, sometime in the second quarter of 2016.

The main expense items relate to maintenance work on the electricity and gas distribution networks and the operating expenses connected with all other activities. In total, those items account for approximately 55% of our overall expenses. 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 offering of smart meters. This investment equates to roughly 25% of our total expenditure. Additionally, there is the dividend payable to our shareholders and the holders of the subordinated perpetual bond loan each year plus the interest payments to the providers of borrowed capital. The dividend and interest payments together amount to approximately 10% of our overall expenses. Finally, we pay surffrance tax charges to municipal authorities and corporate income tax to the Dutch Taks & Customs Administration. This accounts for another 10% of our expenses approximately.

Non-current assets held for sale: Endinet

On 24 March 2015, Alliander and Enexis signed heads of agreement on a transaction under which Enexis Holding would sell to Alliander those parts of its networks in Friesland and Noordoostpolder (Activabedrijf Enexis Friesland B.V.) and Alliander would in turn sell Endinet Groep to Enexis. The Sale and Purchase Agreement (SPA) was signed on 27 July 2015 and the transaction took effect on 1 January 2016.

Coincidentally with the signing of the heads of agreement, in compliance with IFRS 5, Endinet was classified in Alliander's consolidated balance sheet as being held for sale with effect from 24 March 2015, with the corresponding classification of discontinued operations being applied in the consolidated income statement. The held-for-sale classification means that, with effect from 24 March 2015, all of Endinet's assets and liabilities carried in Alliander's consolidated balance sheet were reclassified to the balance sheet items 'assets held for sale' and 'liabilities connected with the assets held for sale'. Depreciation charges relating to Endinet's assets also ceased with effect from 24 March 2015. Furthermore, all intercompany accounts between Alliander and Endinet were eliminated prior to recognition as 'held for sale' and 'discontinued operations'.

The discontinued-operations classification means that Endinet Groep's consolidated net profit is recognised and reported in Alliander's income statement. For comparison purposes, the same treatment has been applied to the figures for Alliander relating to 2014.

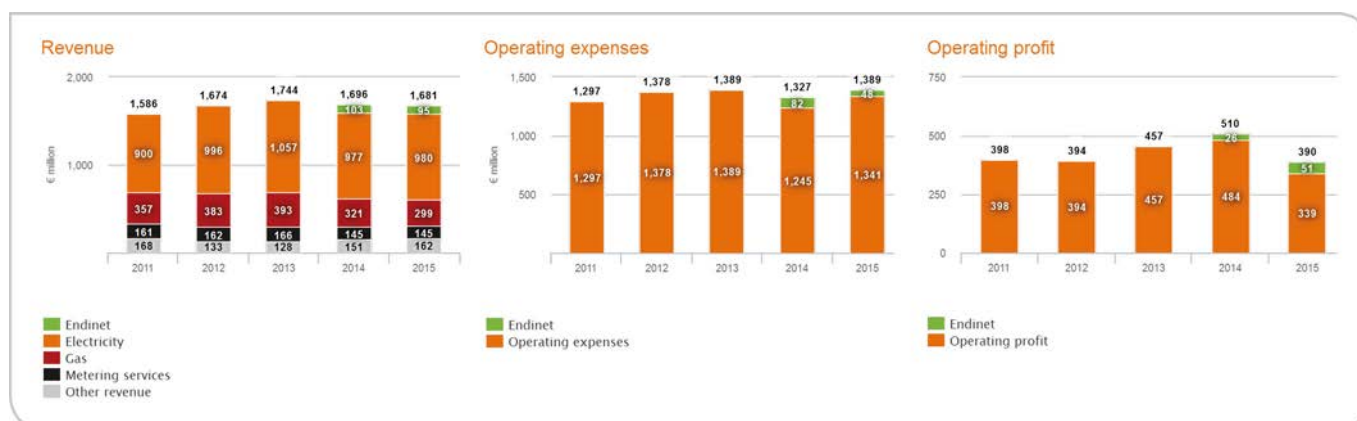
The implication of this accounting treatment is that the Endinet figures are no longer included in the separate items of Alliander's income statement. Again, for the purposes of prior-year comparison, the relevant Endinet items relating to 2014 and 2015 are disclosed separately in the following graphs. For the years 2011–2013, Endinet is not shown separately.

Income statement for 2015

The profit after tax for 2015 amounts to €235 million (2014: €323 million). Excluding incidental items and fair value movements, net profit after taxes amounted to €211 million (2014: €240 million). The decline of €29 million in the latter figure is accounted for by a result from continuing operations that was €47 million lower than in the preceding year owing to reduced income and an increase in expenses while the result from discontinued operations was up by €18 million, chiefly as a consequence of ceasing to recognise depreciation in relation to Endinet from 24 March 2015 onwards.

Total income was down from €1,729 million in 2014 to €1,680 million in 2015, as a result of lower regulated tariffs coupled with an incidental (non-recurring) gain in 2014. Total operating expenses were up from €1,245 million in 2014 to €1,341 million in 2015. This increase was chiefly a consequence of higher surffrance tax charges, higher costs passed on from the transmission network operator TenneT and higher network maintenance costs. Alliander continues to work towards increased effectiveness and efficiency.

The significant trends in the income and expenses are discussed below in greater detail. It should be noted in this context that the items relating to Endinet for 2014 and 2015 are shown separately whereas reporting requirements mean that they are presented as a single 'result from discontinued operations' in the financial statements. For further details, reference is made to note [33] in the financial statements.



Revenue

Revenue (excluding revenue from discontinued operations – Endinet) in 2015 was down by €8 million, from €1,594 million to €1,586 million) compared with the preceding year. The drop was largely the combined effect of lower regulated gas transport and connection tariffs (down by €22 million) and an increase of €11 million in the contributions to operations and other revenue. Approximately 85% of our revenue is generated by regulated activities. Alliander also has non-regulated activities, such as those of Liandon, and various new activities.

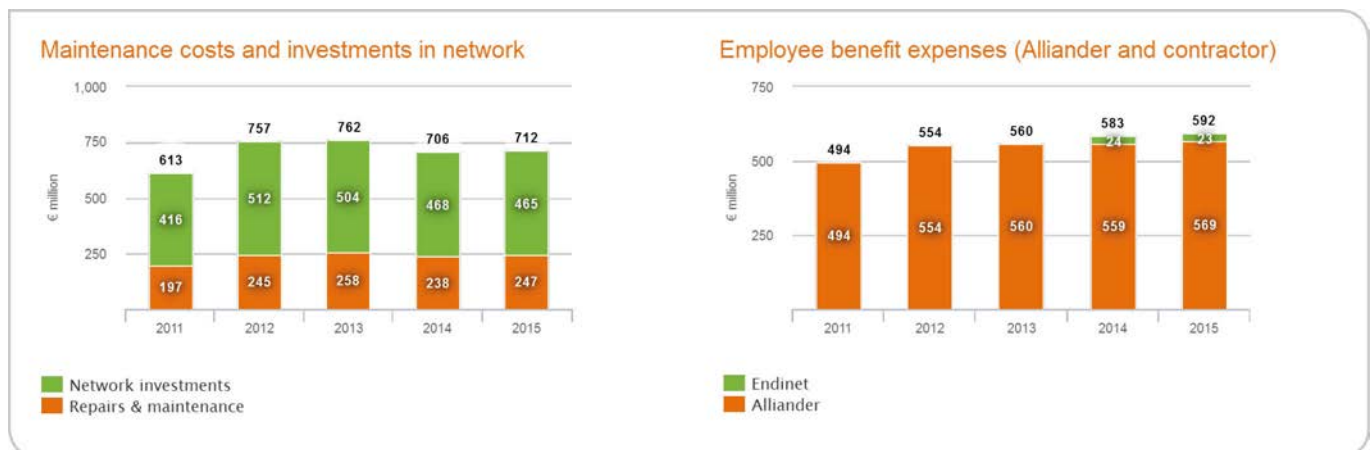
Operating expenses

The total operating expenses (excluding those associated with discontinued operations – Endinet) were up from €1,245 million in 2014 to €1,341 million in 2015. This increase was chiefly a consequence of higher surffrance tax charges, higher costs passed on from the transmission network operator TenneT and higher network maintenance costs. There were also higher depreciation charges. The other operating expenses showed a decline. Alliander continues to work towards increased effectiveness and efficiency.

Operating profit

The operating profit (excluding the operating profit from discontinued operations – Endinet) amounted to €339 million, which is €145 million lower than in the preceding year.

This is accounted for by lower total income, which was down by €49 million overall, with a reduction of €41 million in other income, mainly because total income in 2014 was lifted by an incidental (non-recurring) gain of €40 million in 2014 but also because of a drop in revenue of €8 million in 2015. Total costs were also up by €96 million. This significant increase in costs is considered in greater detail below.



Network investment 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 investment and maintenance costs, at €712 million, was comparable to the expenditure in 2014 (€706 million).

Employee benefit expense

The increase of €10 million in employee benefit expense for permanent staff and external personnel compared with the preceding year was entirely due to an increase in external staff in the IT service unit in particular. The permanent staff costs were the same as in the preceding year, accounted for by a slightly lower number of FTEs coupled with an increase in costs per FTE due to such things as general pay increases and higher levels of education leading to increased costs.



Grid losses

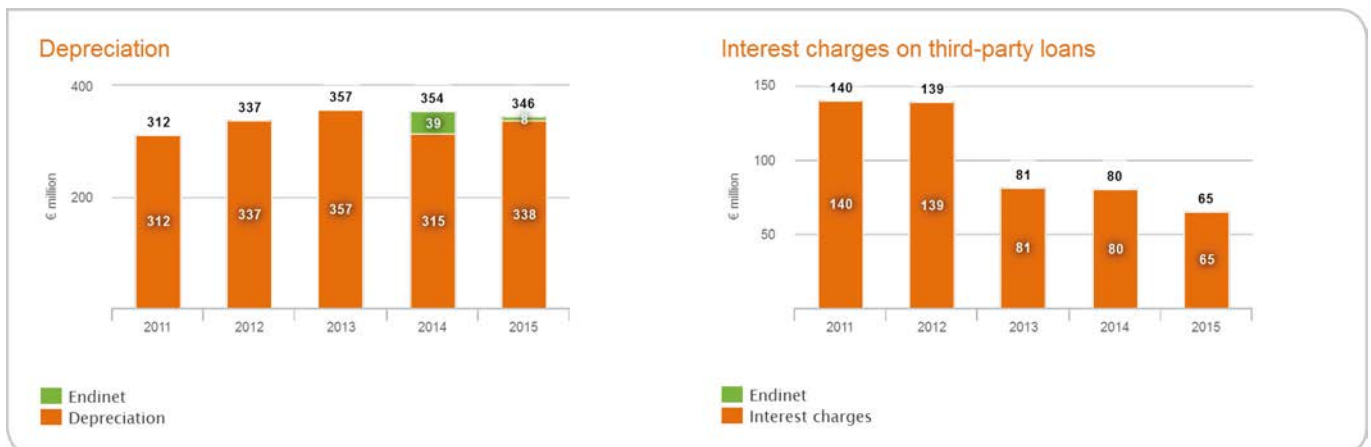
The costs of grid losses (excluding costs attributable to discontinued operations – Endinet) amounted to €71 million, which is €10 million less than in the preceding year. The lower figure is mainly the result of lower tariffs plus gains from the settlement of network losses in prior years and an amount released from reserves.

Transmission capacity costs

The costs of providing transmission capacity passed on by electricity transmission network operator TenneT (excluding costs attributable to discontinued operations – Endinet) showed a further increase in 2015 of €17 million, coming in at €160 million (2014: €143 million). This increase is mainly due to higher tariffs charged by TenneT as a result of including the system service tariff in the transmission charges. The service charges are set by the Authority for Consumers & Markets (ACM) and constitute an integral part of the tariffs.

Sufferance tax charges

The amount of sufferance tax charges increased by €30 million compared with 2014, to €110 million. The trend in the amount of sufferance tax payable over the past five years is illustrated in the graph above. The increase is largely due to the fact that more and more municipal authorities are levying sufferance tax charges on Liander. The fact that there is what is referred to as an objectively observable regional difference means that these sufferance tax charges are included in the data used for regulation purposes and, for the most part, with a time lag reflected in the tariffs applicable to all customers in the area served by Liander. The local levies therefore lead to increased tariffs for all customers, even though the tax is only levied by a limited number of municipalities. For this reason, Alliander is opposed to sufferance taxes.



Depreciation

The depreciation charges and impairment losses on property, plant and equipment (excluding those attributable to discontinued operations – Endinet) amounted to €338 million, which is an increase of €23 million compared with the preceding year. This increase is mainly accounted for by higher scheduled depreciation on networks and IT equipment plus an increase in impairment losses resulting from the accelerated depreciation of decommissioned assets. Depreciation charges for Endinet were lower because of the discontinued recognition of depreciation from 24 March onwards, following the classification of Endinet as held for sale.

Interest charges

A drop in interest-bearing debt coupled with lower interest rates meant that interest charges on loans from third parties were down by €15 million in 2015, at €65 million.

Incidental items

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

Net incidental items and fair value movements in 2015 combined to give a gain of €24 million after tax (2014: €83 million gain). The following table contains an overview of the reported figures and the figures excluding incidental items and fair value movements.

Reported figures and figures excluding incidental items and fair value movements

€ million	Reported		Incidental items and fair value movements		Excluding incidental items and fair value movements	
	2015	2014	2015	2014	2015	2014
Revenue	1,586	1,594	-	-	1,586	1,594
Other income	94	135	-	40	94	95
Total purchase costs, costs of subcontracted work and operating expenses	-1,177	-1,100	37	72	-1,214	-1,172
Depreciation and impairments	-338	-315	-	-	-338	-315
Own work capitalised	174	170	-	-	174	170
Operating profit (EBIT)	339	484	37	112	302	372
Finance income/(expense)	-71	-93	-6	-19	-65	-74
Result from associates and joint ventures	-4	-	-	-	-4	-
Profit before tax	264	391	31	93	233	298
Tax	-67	-88	-7	-10	-60	-78
Profit after tax from continuing operations	197	303	24	83	173	220
Profit after tax from discontinued operations	38	20	-	-	38	20
Profit after tax	235	323	24	83	211	240

Other income

(2015: nil, 2014: €40 million gain)

The exceptional item included in other income in 2014 concerned the book profit on the sale of the 25.4% interest in KEMA to DNV. There were no exceptional items in 2015.

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

Total purchase costs, costs of subcontracted work and operating expenses

(2015: €37 million gain, 2014: €72 million gain)

The incidental gain of €37 million recognised as purchase costs, costs of subcontracted work and operating is accounted for by income of €66 million (2014: €80 million) relating to the termination as per contract of the CDS, a financial instrument relating to two cross-border lease contracts. The item also includes an expense of €17 million (2014: nil) 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 Alliander in the Eindhoven region and Zuidoost-Brabant (Endinet), which came into effect on 1 January 2016. The remainder of the purchase costs, costs of subcontracted work and operating expenses is accounted for by €12 million (2014: €8 million) in respect of organisational changes.

Finance income and expense

(2015: €6 million loss, 2014: €19 million loss)

The incidental financing loss of €6 million includes a loss of €4 million currency translation differences, relating to the CDS (an instrument denominated in US dollars). The incidental loss in 2014 is also mainly connected with the items relating to the cross-border leases, including the revaluation recognised in respect of an investment relating to a particular cross-border lease and the movement in a related provision (totalling €17 million).

The remaining €2 million (2014: €2 million) of the loss relates to exchange differences between the euro and the US dollar on the other assets recognised in the balance sheet relating to cross-border leases. The tax effect on the incidental items and fair value gains and losses has been included in the tax item.

Tax

(2015: €7 million loss, 2014: €10 million loss)

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

Segment reporting

General

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

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

The figures for each reporting segment, excluding incidental items and fair value movements, are shown in the following table. These figures are a direct reflection of the regular internal reporting. This internal reporting structure does not reflect the classification of Endinet as held for sale/discontinued operations. This means that Endinet has been included in the Alliander consolidation and that depreciation has been continued. Consequently the segment results differ from the operating profit recognised in the income statement. Detailed information on segment reporting can be found in note [2] of the financial statements.

Primary Segmentation

€ million	Network operator Liander		Network company Endinet		Other		Eliminations		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Operating income										
External income	1.567	1.586	101	108	112	103	-	-	1.780	1.797
Internal income	6	5	-	-	329	308	-337	-313	-	-
Operating income	1.573	1.591	101	108	441	411	-337	-313	1.780	1.797
Operating expenses										
Operating expenses	1.218	1.175	83	87	491	450	-336	-313	1.456	1.399
Operating profit	355	416	18	21	-50	-39	1	-	324	398

Network operator Liander

The network operator Liander segment consists of the legal entity Liander N.V. which, as designated network operator within network company Alliander, has a statutory duty to manage the electricity and gas networks and related assets in the provinces of Gelderland, parts of Friesland, Noord-Holland, Zuid-Holland and Flevoland. Liander connects customers to the electricity and gas networks, through which it distributes electricity and gas. External income in 2015 was down by €19 million compared with 2014, at €1,567 million. This decrease is mainly accounted for by the decrease in the regulated tariffs in 2015. Operating expenses were also up by €43 million, chiefly owing to an increase in sufferance tax charges and transmission charges. Operating profit, at €352 million, was €61 million lower than in 2014.

Network company Endinet

The network company Endinet comprises Endinet Groep B.V., including network operator Endinet B.V. The external income in 2015 amounted to €101 million, a decrease of €7 million compared with 2014. This decrease was brought about by lower regulated tariffs. The operating expenses came in at €83 million (2014: €87 million). Operating profit for 2015 was €18 million (2014: €21 million).

Other

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. External operating income in 2015 was up by €9 million compared with 2014, at €112 million. This increase was a consequence of higher revenue from Liandon and new activities among other things. The operating profit for 2015 amounted to €50 million negative (2014: €39 million negative). The reduced losses are mainly attributable to new activities.

The abridged balance sheet as at 31 December 2015 is shown below:

Balance sheet

€ million	Alliander N.V.	
	31 December 2015	31 December 2014
Assets		
Non-current assets	6.707	7.012
Current assets	406	651
Non-current assets held for sale	613	9
Total assets	7.726	7.672
Equity and liabilities		
Total equity	3.687	3.579
Non-current liabilities	2.970	3.384
Current liabilities	974	709
Liabilities held for sale	95	-
Total equity and liabilities	7.726	7.672

The following notes explain the significant changes in the balance sheet as at 31 December 2015 relative to the situation as at 31 December 2014. Detailed information on balance-sheet items is given in the financial statements.

Endinet classified as held for sale

As previously mentioned in this section, Endinet was classified as being held for sale with effect from 24 March 2015. This means that all of Endinet's assets and liabilities were reclassified to the balance sheet items of non-current assets and liabilities held for sale, respectively, from that date onwards. This included the goodwill of €36 million carried in Alliander's balance sheet relating to Endinet. The various balance sheet items can be analysed as follows as at year-end 2015.

Assets and liabilities held for sale

€ million	2015
Assets	
Non-current assets	
Property, plant and equipment	554
Intangible assets	41
Non-current financial assets	1
Total non-current assets	596
Current assets	
Total assets	613
Liabilities	
Non-current liabilities	88
Short-term liabilities	7
Total liabilities	95
Net assets	518

Non-current assets

Ignoring the effect of the reclassification of assets held for sale, non-current assets as at 31 December 2015 had increased by almost €300 million. This increase is mainly a consequence of higher capital expenditure on the networks in relation to the associated depreciation charges and investments in telecommunication networks and meters.

Current assets

Again excluding the held-for-sale effect, current assets were down by €229 million compared with the position as at 31 December 2014, at €406 million. The decrease is mainly accounted for by the contractual termination of an available-for-sale debt instrument and a lower figure for the balance of short-term loans.

Non-current assets held for sale

The non-current assets held for sale as at year-end 2015 relate entirely to the disposal of Endinet, with effect from 1 January 2016. The year-end 2014 figure relates to a high-voltage transmission network in Noord-Holland. A delay in completing the latter disposal meant that these assets were reclassified as property, plant and equipment in 2015.

Equity

Shareholders' equity as at 31 December 2015 increased by €107 million compared with the level as at 31 December 2014, to €3,686 million. This increase is mainly accounted for by the net profit for 2015, amounting to €235 million, less the dividend distribution in 2015 relating to 2014 (€125 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 down by more than €300 million compared with 31 December 2014. This decrease is chiefly due to reclassification of part of the EMTN portfolio (nominal value €400 million) as current liabilities in anticipation of maturity of the notes in 2016.

The current liabilities as at 31 December 2015 were up by almost €300 million compared with the position as at year-end 2014, at €709 million. The increase is largely explained by the aforementioned reclassification of part of the EMTN portfolio, partly offset by the effect of repayment of ECP in 2015.

Liabilities held for sale

The liabilities held for sale as at year-end 2015 relate entirely to the disposal of Endinet, with effect from 1 January 2016.

Shown below is a summary of the cash flow statement for 2015.

Cash flows

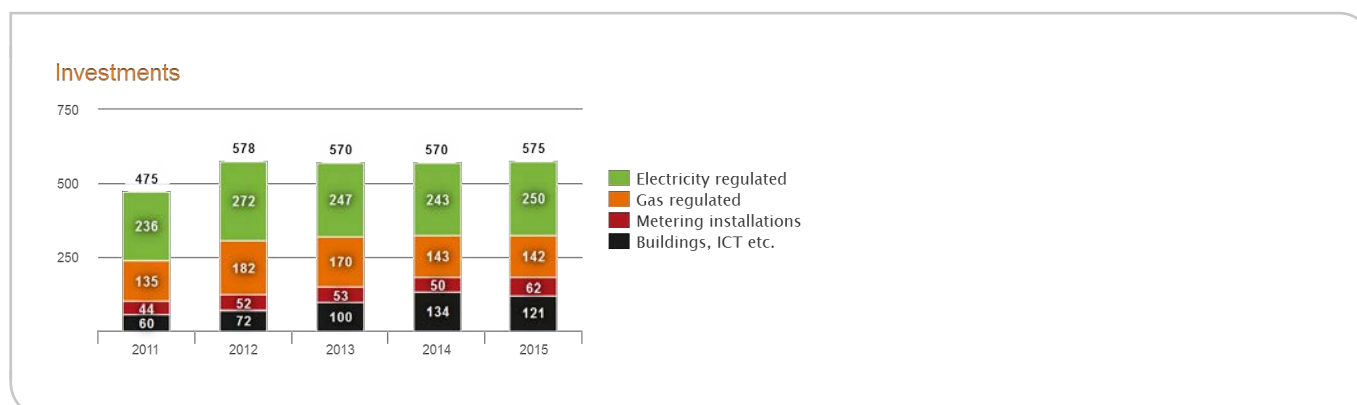
Consolidated cash flow statement

€ million	2015	2014
Cash flow from operating activities	513	623
Cash flow from investing activities	-492	-410
Cash flow from financing activities	-99	-201
Net cash flow	-78	12

The cash flow from operating activities in 2015 amounted to €513 million, compared with €623 million in 2014. The decrease of €110 million is largely accounted for by a fall in the operating profit, excluding incidental items and fair value gains and losses, as a consequence of the reduction in the regulated tariffs and the increase in surffrance tax charges, among other things.

The cash outflow from investing activities in 2015 amounted to €492 million, which is €82 million higher than in 2014. The reduced cash outflow overall in 2014 is explained by the cash inflow from the sale in 2014 of the interest in KEMA to DNV GL Group (€80 million) and the partial sale of CDMA Utilities to Eneco (€4 million).

The cash flow relating to investments in property, plant and equipment amounted to €575 million, which is almost the same as in 2014 (€570 million). Third party contributions to investments in 2015 amounted to €85 million, which is slightly higher than in the previous year (€80 million).



The level of capital expenditure has risen by €100 million relative to 2011, an increase of more than 21%. Apart from the increased investments in the networks and 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) and investments concerning various activities to take forward the energy transition. In 2015, there was also investment in buildings connected with the renovation of the office building in Duiven, with its sustainable and energy-positive credentials.

The cash flow from financing activities in 2015 amounted to €99 million negative (2014: €201 million negative). The net negative cash flow in 2015 is mainly accounted for by the repayment of ECP loans of €112 million plus dividend payments (€125 million) set against which was an inward cash flow from the repayment on maturity of available-for-sale securities (€141 million).

Free cash flow

The free cash flow in 2015 totalled €21 million, compared with an inward free cash flow in 2014 of €213 million. The drop of €192 million compared with 2014 is entirely explained by a lower cash flow from operating activities and the inclusion in 2014 of €80 million received from the sale of the KEMA shares.

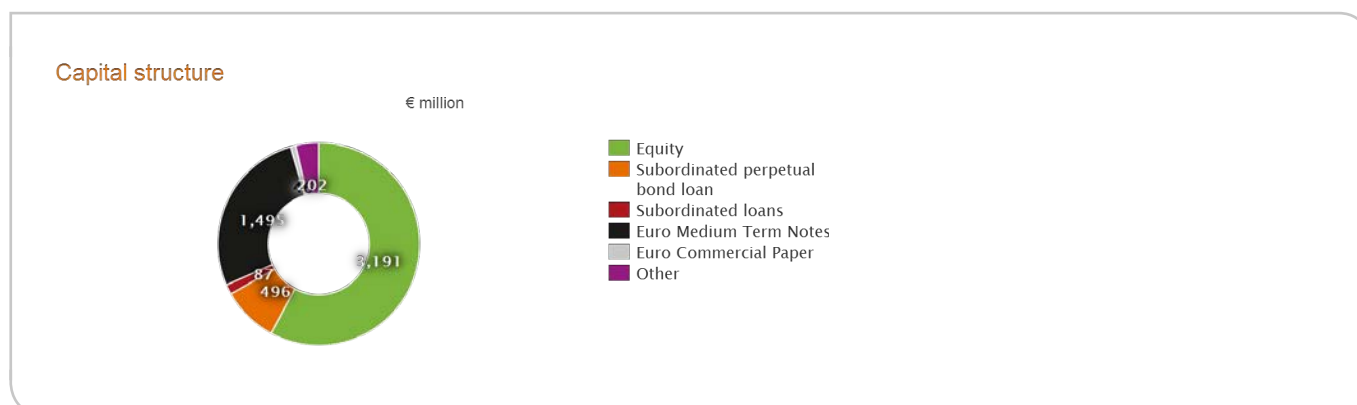
Free cash flow reconciliation

€ million	2015	2014
Cash flow from operating activities	513	623
Investments and divestments in non-current assets	-577	-490
Construction contributions received	85	80
Free cash flow	21	213

Financial position

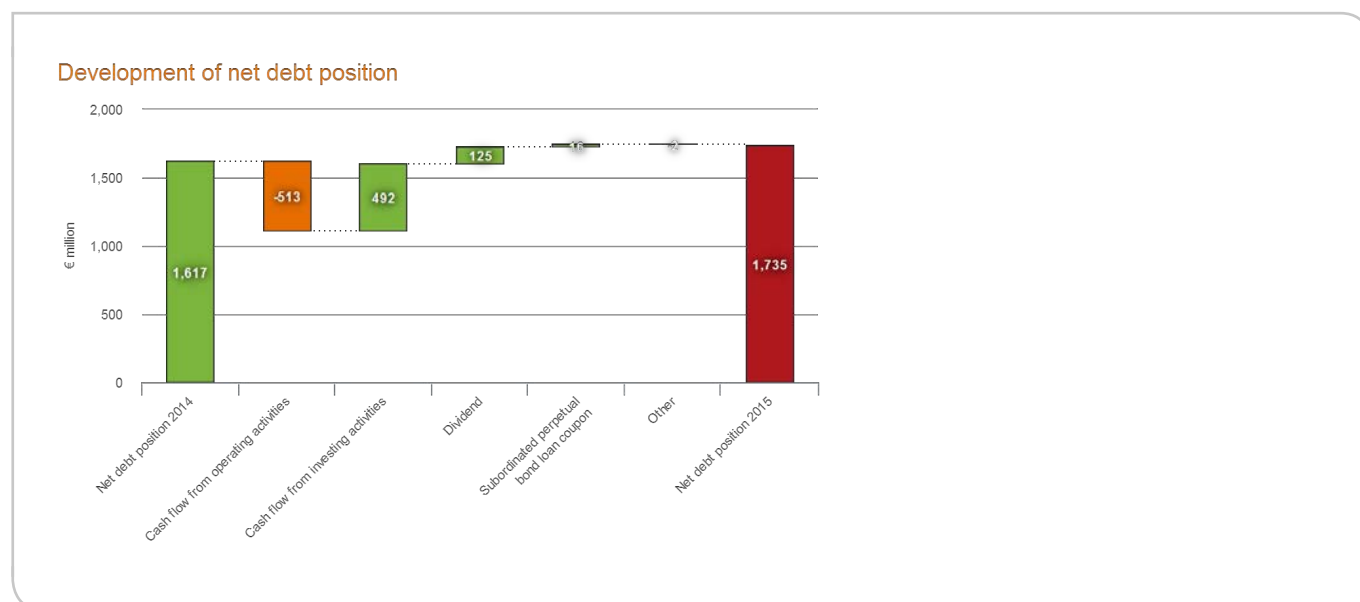
Capital structure

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. The capitalisation of Alliander as at year-end 2015 was made up as follows:



As the capital structure reveals, Alliander is 59% equity-financed. Shareholders' 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. 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 as at 31 December 2015 is shown below:



Development in net debt position

€ million	31 December 2015	31 December 2014
Long-term interest-bearing debt	1,197	1,616
Short-term interest-bearing debt	471	159
Finance lease liabilities	162	145
Gross debt	1,830	1,920
Cash and cash equivalents	89	167
Current financial assets	25	184
Investments held for lease obligations related to cross-border leases	229	200
Total cash and cash equivalents and investments	343	551
Net debt according to the annual financial statements (IFRS)	1,487	1,369
50% of the subordinated perpetual bond loan	248	248
Net debt on the basis of Alliander's financial policy	1,735	1,617

Events after balance sheet date

As previously mentioned in this section, the transaction involving the sale by Enexis Holding of its network areas in Friesland and Noordoostpolder (Aktivabedrijf Enexis Friesland B.V. – AEF B.V.) to Alliander and the reciprocal sale by Alliander of Endinet Groep to Enexis came into effect on 1 January 2016. As part of the transaction, Enexis made an additional payment to Alliander of €365 million, reflecting the extent to which the size of Endinet exceeds that of AEF B.V.

Under IFRS, this is treated by Alliander as two separate transactions, namely:

1. The sale of Endinet and
2. The purchase of AEF B.V.

In order to arrive at the book profit on the sale, it is necessary to measure the fair value of Endinet. The same applies to AEF B.V., since it is an IFRS requirement that there should be specific allocation of the fair value to the separately acquired assets and equity and liabilities.

It will be a few months before the process of establishing the fair value is completed, partly because the 2015 financial statements of both Endinet and AEF B.V. still have to be formally adopted. The figures disclosed below are accordingly provisional in nature. The fact that the two transactions were completed on 1 January 2016 means that they will actually be recognised in the 2016 figures, although IFRS rules also require their disclosure in the 2015 financial statements as events after the balance sheet date.

The provisional fair value of Endinet has been measured at €705 million. Deducting the assets and equity and liabilities to be disposed of under the terms of the sale agreement leaves a provisional book profit of €173 million. As already mentioned, this income will be recognised in 2016.

The provisional fair value of AEF B.V. amounts to €340 million. Provisional allocation of this figure to the assets and equity and liabilities of the acquired business leaves a provisional amount of €11 million to be carried on Alliander's books in respect of goodwill.

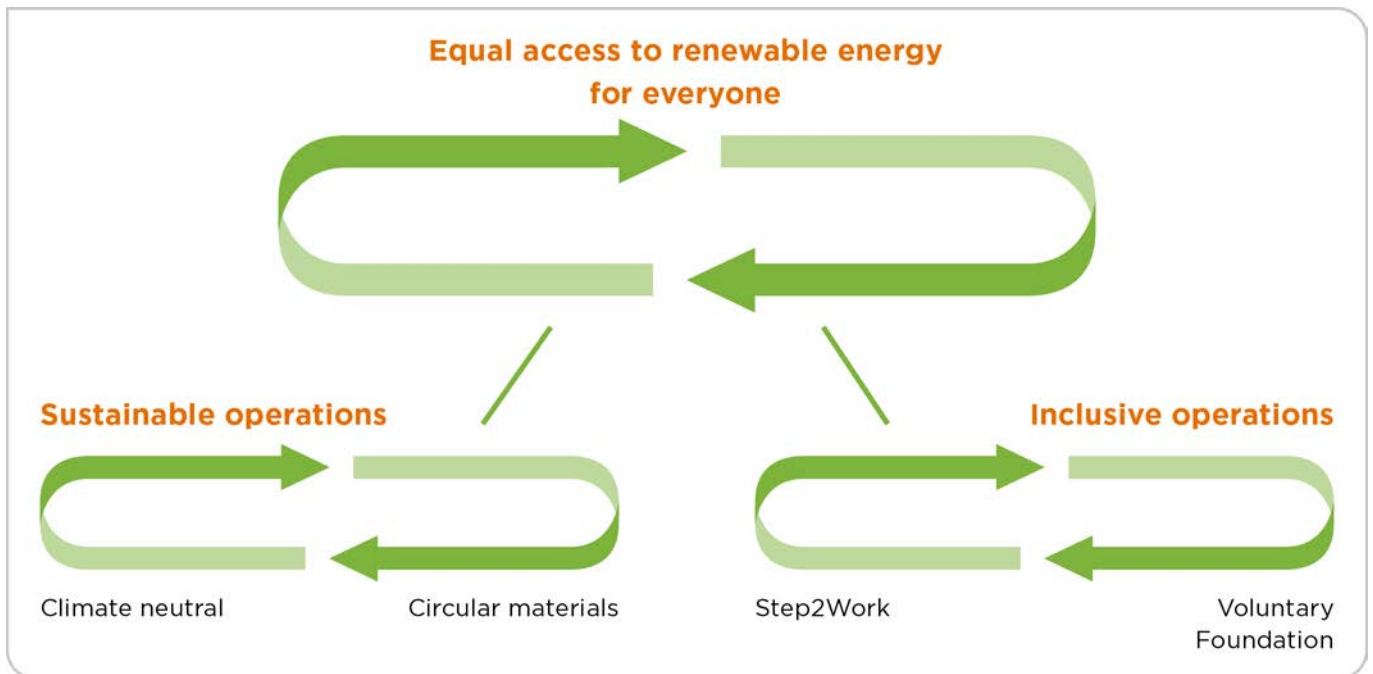
Full details of this transaction can be found in note [36] of the financial statements.

Our sustainability performance

Our CSR efforts are aimed at closing three circles. First of all, Alliander endeavours to contribute towards the energy transition by giving all customers equal access to renewable energy. We also aim to minimise the costs of this transition for society at large. Climate change can only be kept in check through a renewables-only approach. In other words, we must meet all our growing energy requirements from renewable sources such as wind, solar, water and renewable heating. Our contribution towards the green energy drive forms part of our strategy and is our most important CSR pillar. You can read more about this in the 'About Alliander' chapter, which highlights the latest market developments and our mission and vision.

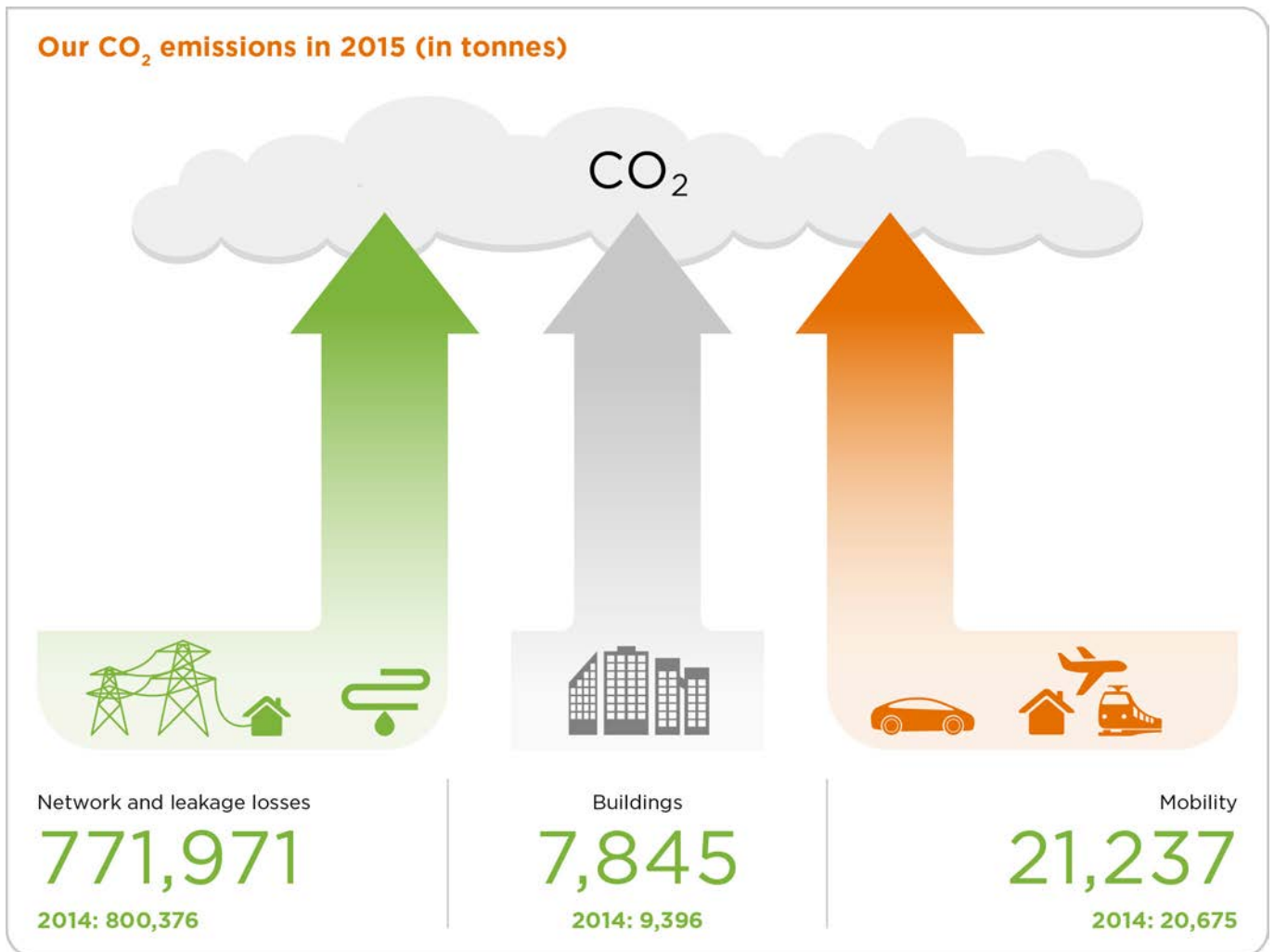
Secondly, Alliander is also seeking to close its own circle by working towards climate-neutral and circular operations. Ultimately, our business operations must exclusively use renewable energy and recycle-based materials. To achieve, changes to our investment and procurement policies will be required.

Thirdly, we see a wider CSR responsibility for our company when it comes to the social circle of recruiting, training and developing people. As a large employer we can offer more than just work. We are responding to vital societal themes by helping people without qualifications into work and by catering to the growing demand for voluntary work in our society. A socially responsible company is an inclusive company, where everyone gets a fair chance to reach their full potential. You can read more about this in the 'Employees' chapter.



Climate-neutral operations in 2023

Alliander has a substantial CO₂ footprint totalling 801 kilotonnes. That is equivalent to the CO₂ footprint of the entire municipality of Amsterdam. Our ambition is to be fully climate-neutral by 2023 and to report transparently on our progress towards this goal. This is the first year that Alliander applied the sector model for making carbon footprint comparisons between network operators.



In 2015, our CO₂ emissions dropped by almost 30 kilotonnes compared to the previous year. A detailed overview of our footprint is included in 'Other information'. 90% of our footprint is attributable to network losses, which largely arise during the transmission of electricity and gas. In 2015, these network losses cost us about €70 million. The greening of network losses is therefore one of our priorities.

Network loss reduction programmes

The total emissions due to technical network losses were lower in 2015 than in 2014. The main explanation is that less energy was transmitted, despite the economy starting to pick up. This could point to increased efficiency. Alliander has initiated a dedicated programme to reduce the technical network losses. This has already produced many quick wins (savings on stations) and policy adjustments. Alongside the reduction programme, Alliander also replaced grey cast-iron gas pipes at various locations for safety reasons and to reduce gas leakages. Finally, we also decided to focus more on network losses in our day-to-day network management.

As a result, our grip on the administrative network losses has improved slightly. Almost all the objectives set for 2015 were achieved. Administrative network losses arise from non-customer energy usage and fraud (e.g. illegal cannabis growing). Clearly, we rely partly on the police and judiciary to give us active and focused assistance in our efforts to fight fraud. However, the digitisation of our networks will make it easier to trace energy fraud in the years ahead.

Stable mobility and buildings emissions

We managed to keep the mobility emissions stable in 2015. Our main investment was in a more efficient vehicle fleet comprising fewer and smaller vans for our engineers. The stricter CO₂ criterion for our lease cars (maximum of 110 grams/km) is producing the first visible effects. An experiment with 20 electric Liander vans was started in the Amsterdam region.

The emissions from our buildings showed a slight drop. Besides reducing the number of locations, we are redeveloping and greening our remaining office buildings. We opened our sustainable office building in Duiven and the sustainable renovation of our head office in Arnhem was started up.

Circular renewable office in Duiven



As a sustainability leader, we obviously want our buildings to reflect our ambitions and help us achieve our objectives. Accordingly, our office building in Duiven was redeveloped according to ambitious sustainability standards. Our location in the east of the Netherlands consists of five old office buildings that have been transformed into an energy-positive complex. In line with the circular model, the old materials were largely reused for the renovation or

recycled into raw materials for other products. The complex will ultimately generate more energy than it consumes.

Greening of network losses with sustainably generated energy

Apart from reducing emissions from our operations, we are also working to green our network losses by generating additional renewable energy in the Netherlands. Over the past two years, we signed contracts with operators of new Dutch wind farms for this purpose. The first wind farm was opened in 2015 and will be fully operational by mid-2016. The procurement of renewable energy through Guarantees of Origin enabled us to green a small percentage for the first time in 2015. Going forward, this percentage will rise steadily.

Supply chain emissions

In 2015, Alliander's principal focus was on its direct emissions (scope 1 and 2). Our supply chain emissions (scope 3) were determined using a more extensive method and served to help us make good sustainable arrangements with our suppliers. The total supply chain emissions were calculated at about 126,000 tonnes (2014: 118,000 tonnes). A breakdown of these emissions by category is given in 'Other Information'.

The highest step on the CO₂ performance ladder

Our CO₂ approach and method 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.

A renewed assessment in 2015 saw Alliander rise to level 5. This means that we know the CO₂ emissions of our A-suppliers, have achieved the level 3 and 4 objectives, and have 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.

Working on circular operations

Circular thinking is key to help businesses and society transform towards a genuinely sustainable model. Alliander is keen to do its part. Circular operations can enable Alliander to create optimum financial value from its assets and raw materials, while also reducing its environmental impact. By 2020, 40% of our technical materials should be purchased through circular procurement.

We started an exploratory phase in 2014 and are now embarking on the step-by-step implementation. Tangible examples are our circular procurement objective, the circular redevelopment of our offices in Duiven and Bellevue, and the use of circular office furniture (tables, chairs and lamps) and supplies (coffee cups). In addition, a circular measurement method has been developed, an Advisory Council has been set up, pilots are being carried out with our pipe suppliers, and transformers and stations are being reused. In 2015, circular procurement accounted for 1% of our purchases, which means we are on track to meet our targets.

Circular procurement of the smart meter

Special attention was given to our circular procurement of smart meters. In 2015, we agreed with the suppliers that the new energy meters must be Fair Meters. This means that the primary procurement criteria for the new energy meters were use of sustainable materials, responsibility for the supply chain and origin of materials, exclusion of malpractices such as child labour, and circularity of the meter. Other network operators are also involved in this initiative.

Circular procurement demands intensive cooperation with our suppliers. Underlining our commitment to this policy, we became one of the first 20 signatories of the Circular Procurement Green Deal. The aim of this Green Deal is to learn from each other's experiences by starting up circular procurement processes. Our procurement processes, policy and strategy must be demonstrably circular by no later than the end of 2016.

A sustainable relationship with our suppliers

With an annual procurement volume of about €750 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 criteria. Our outsourcing policy incorporates provisions relating to 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 principles. Infringements of the code can lead to sanctions, such as termination of the contract. Regular audits guarantee compliance with the Code of Conduct. When we buy products in low-wage countries, such as in South-east Asia, we carry out on-the-spot audits at these suppliers. Alongside the customary quality and product controls, we pay close attention to CSR elements such as working conditions, safety and the environment. The CSR audit is performed by an independent external party having the knowledge required to assess the local situation. No instances of unethical behaviour were discovered at any of our suppliers in the year under review.

In addition to the Code of Conduct, 66% of our goods and services were purchased on the basis of Socially Responsible Procurement (SRP) statements in 2015 (2014: 61%). This supports our circular procurement objective in the Netherlands and enables us to further streamline sustainability at our suppliers. One tangible result of the SRP statements is that at least 100 people at a distance from the labour market work at our suppliers on our products and services.

In addition to the above initiatives, Alliander is now partnering with FIRA to monitor the sustainability of its smaller suppliers. 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.

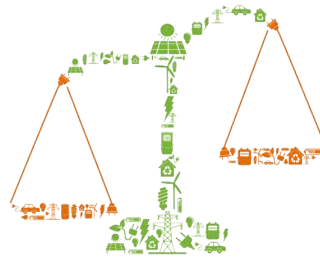
Sustainability rating

Credit ratings are no longer all-important for investors. Sustainability ratings matter too. Sometimes investors can only invest in companies if these have a minimum sustainability rating or higher. In 2015, the German sustainability rating agency Oekom awarded Alliander a Prime B rating (on a scale of A+ (highest) to D- (lowest)). This rating is one step below the B+ rating awarded by Oekom last year, but is still in the Prime category.

The downgrade was due to variances in the amount of information that is available to Oekom from one year to the next. Alliander is working to eliminate these differences by making more relevant information permanently available to the public.

Impact of heating network in Nijmegen

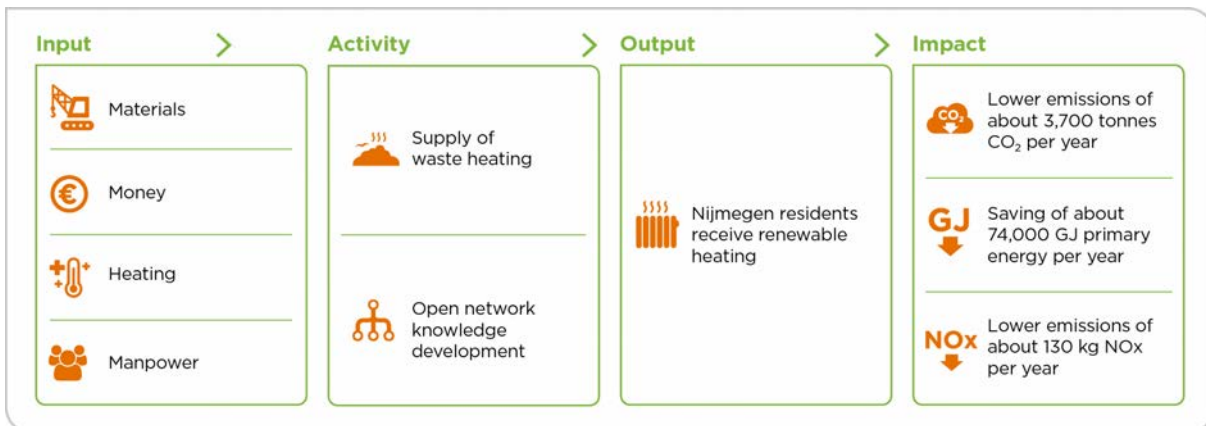
Alliander Duurzame Gebiedsontwikkeling (DGO) works together with businesses, authorities and end users to realise the sustainability ambitions for whole areas. DGO facilitates the entire energy planning and supply process, from the development of sustainable vision documents to the operation of renewable energy networks, such as heating and cooling networks or biogas installations.



One major project concerns the construction of a heating network in Nijmegen for about 3,700 homes in cooperation with the municipality of Nijmegen, Nuon, ARN and the province of Gelderland. Impact measurements show that compared to a conventional gas network (with a connected high performance boiler) the heating network yields significant natural gas savings, leading to lower CO₂ and harmful NO_x emissions. The CSR measurement quantifies the environmental impact of the heating network in Nijmegen in 2015 as follows:

Description	Impact in %	Impact in #	Explanation
Reduction in CO₂ emissions	62% lower emissions	Emissions about 3,700 tonnes CO ₂ lower per year	The lower emissions are equal to the energy emissions of over 800 households
Reduction in fossil fuel consumption (natural gas)	62% lower energy consumption	Saving of about 74,000 GJ primary energy per year	The saving is equal to the average natural gas consumption of over 1,300 households
Reduction in NO_x	8% lower NO _x	Lower pollution of about 130 kg NO _x per year	

Encouraged by these measured impacts, DGO is actively developing and encouraging the realisation of other open networks elsewhere in the Netherlands. By opening up the networks and connecting more producers and customers, we can increase the security of supply and accelerate the move towards local renewable energy generation. This fits our mission to work on an energy supply that gives everyone equal access to reliable, affordable and accessible energy.



Going forward: what you can expect from us

Results

Given the regulated nature of the majority of Alliander's business activities, the current regulation method and the development of tariffs in 2016, Alliander expects, barring unforeseen and one-off events (e.g. the sale of Endinet), that the operating profit in 2016 will be lower than in 2015.

Investments

The gross investments, mainly for network replacement and expansion but also energy transition, are estimated to total about €600 million in 2016. The extent and speed at which decentralised energy generation and feed-in are adopted influences our long-term investment plans. Other capital expenditures scheduled for 2016 include the redevelopment of the head office in Arnhem and new activities.

The large-scale roll-out of smart meters that got under way in 2015 will be scaled up in 2016. The investment in this operation in 2016 is estimated at €100 million.

Financial policy

Alliander's financial policy is aimed at creating and preserving financial strength and flexibility and securing good access to the capital market by maintaining a solid A rating profile on a stand-alone basis and by ensuring a balanced repayment schedule and a balanced investment plan, controlling operating expenses, having access to committed credit facilities and maintaining adequate reserves of cash and cash equivalents.

Significance of sustainability for future financing

During 2015, a clear shift in cash flows became visible in the capital markets. Major investors announced their intention to invest part of their total investment portfolio more sustainably. The market for Green Bonds received a strong impulse. Sustainability results are becoming steadily more important for companies from a funding perspective. Investment selection is increasingly based on sustainability criteria. Alliander, too, is assessed by the capital markets on the basis of its financial, and CSR performance.

Our CSR and financial results must therefore increasingly be viewed as an integrated whole. In this light, Alliander initiated an impact measurement in 2015 in order to quantify the economic, social and ecological impacts of our actions on society. The first impact measurements at project level are contained in this report. In 2016, we intend to take further steps in the development of our CSR impact measurement.

In the coming years, Alliander will continue to improve its sustainability performance on the road towards being climate-neutral by 2023. In 2016, we expect to make 5% of our network losses more sustainable, with further steps in this direction expected in 2017. We are also actively seeking to make our buildings (such as our revamped head office) more sustainable and our assets more energy-efficient. One aim is to reduce the energy consumption of our substations by 30%. Our exact plans and objectives can be read in the Alliander Year Plan 2016 which is posted on www.alliander.com.

We are keen to take the lead in making our company and wider society more sustainable and to encourage other infrastructure operators to follow suit. That is why we initiated the national Green Networks coalition in 2014, which centres on collaboration and knowledge exchange. In 2016, the coalition will be given a formal administrative structure and its activities will be developed further.

What have we learned?

Alliander always strives to perform its duties and activities to the best of its ability. However, unexpected incidents, developments and events can never be ruled out. We want to learn from these experiences in order to further enhance the quality of our organisation. Some noteworthy events from 2015 are outlined below.

Everyone safely home

What happened?

Everyone safely home. That is our central objective for the safety theme. Nevertheless, various colleagues reported sick due to accidents and incidents in the year under review. In 2015, 24 accidents led to sickness absenteeism. This concerned accidents with our own employees, as well as with employees of contractors working on our behalf.

What have we learned?

Safety has top priority within Alliander. In order to improve our safety performance, Alliander adopted a new safety approach in 2014 for employees, subcontractors and other business partners. This approach forms the guideline for the measurement and continuous improvement of our daily safety performance. The new approach consists of improvement projects, safety campaigns and a stronger managerial focus on safety.

About 240 escalated customer complaints

What happened?

We continuously aim to improve our services. Nevertheless, Liander received complaints last year, of which about 240 were escalated (2014: 300). These were dealt with by Liander's 'Customer Ombudsman', who makes an independent assessment of problems (within Liander) and engages in a dialogue with customers about their experiences. Most complaints in 2015 concerned energy meter readings, interruptions and activities during the installation of energy meters.

What have we learned?

We further improved our communications and devoted attention to specific network operation issues in order to explain these in a clear and transparent manner to the customer. But we also devoted attention to behaviour: how do we put the customer first and how do we perform our work? The complaint and the customer is now our top priority in our year plans.

Working together on underground infrastructure

What happened?

In the past one and a half years various gas and water mains breakages led to gas interruptions lasting several days. Though everything was done to resolve the interruptions quickly, these incidents caused great inconvenience to our customers.

What have we learned?

These incidents prompted the network operators Vitens and Liander to intensify their cooperation. Together with all water companies, we identified and analysed the vulnerable points and high-risk areas, in order to target our maintenance and replacement efforts more effectively. In September, Vitens and Liander started replacing some 46 kilometres of water and gas mains in Apeldoorn.

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 2015, 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 Management Board is of the opinion that Alliander's risk management and control system operated effectively in the reporting year in relation to management objectives regarding financial reporting and that they provide a reasonable degree of assurance that the financial reporting contains no inaccuracies of material significance.

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 2015 and of the business during the 2015 financial year of Alliander N.V. and its group companies, the results of which are included in the financial statements, and that;
3. the key risks to which Alliander N.V. is exposed are described in the annual report.

Arnhem, the Netherlands, 22 February 2016

The Management Board
Peter Molengraaf, chairman
Mark van Lieshout, member
Ingrid Thijssen, member



Corporate governance

Corporate governance

Alliander attaches great importance to good corporate governance, effective supervision and transparent accountability to all stakeholders. As a large energy network company, we play a pivotal role in Dutch society. For this reason, Alliander voluntarily applies the principles of the Dutch Corporate Governance Code insofar as applicable, with a limited number of exceptions.

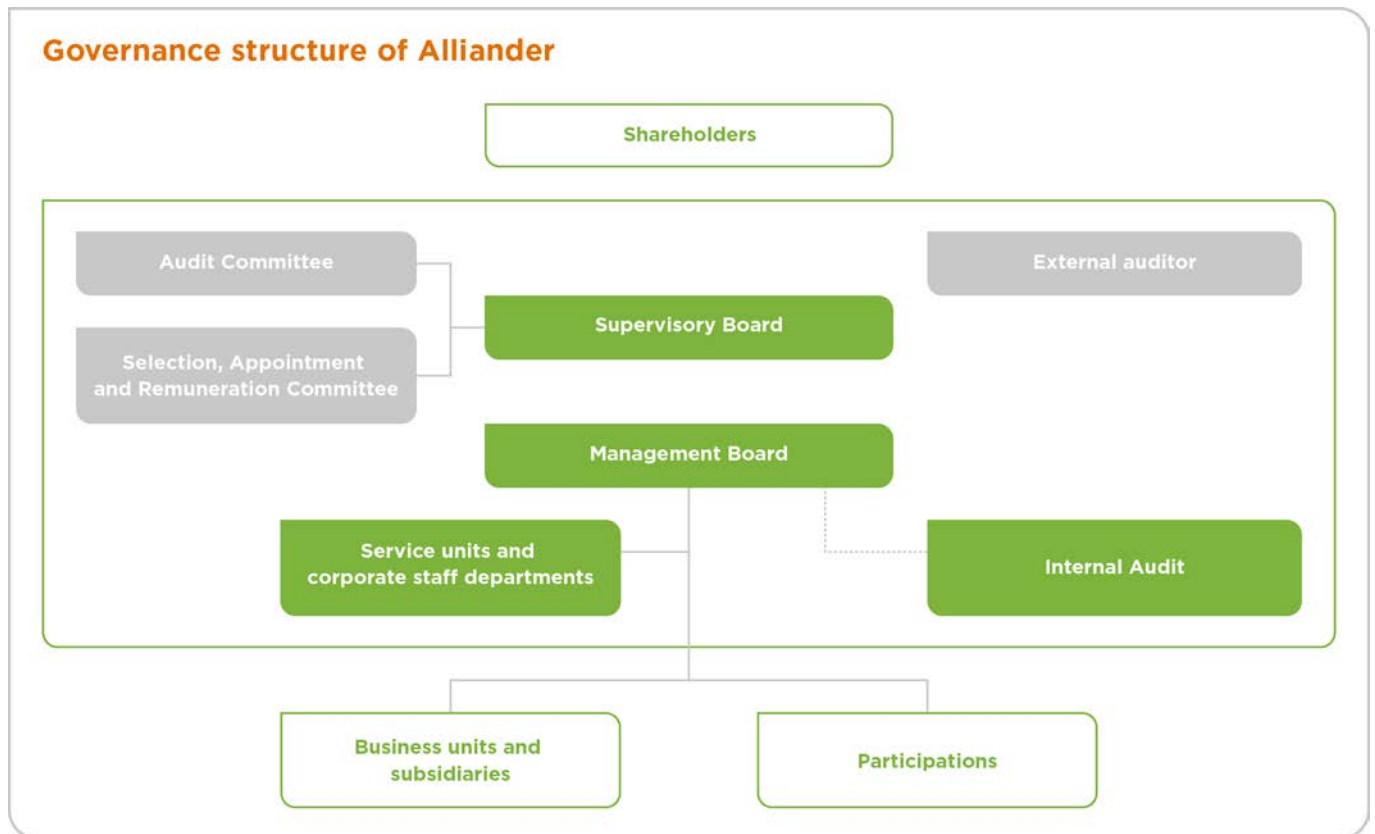
Alliander N.V.

Alliander N.V. is a public limited company according to Dutch law with statutory two-tier status. The statutory two-tier status provides the legal framework that partly determines the company's organisational structure. The governance model consists of a two-tier board, with a Management Board and a Supervisory Board. The company is managed by the Management Board, while supervision is carried out by the Supervisory Board. Both bodies act independently of each other and 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.

Corporate governance structure in outline

The Management Board and the Supervisory Board are jointly responsible for corporate governance at Alliander. During the reporting year, no substantial changes were made to the corporate governance structure. Our two principal pillars for good corporate governance remain good executive management and good supervision of that management. To ensure the competent performance of these duties, the Management Board and the Supervisory Board are supported by an effective system consisting of risk management procedures, an internal audit function and the external auditor. The governance structure is based on Book 2 of the Dutch Civil Code, the Corporate Governance Code, the company's articles of association and various sets of internal rules and by-laws. The Gas Act and the Electricity Act 1998 also contain various provisions that influence the company's governance. In addition, Alliander operates a Whistleblower Policy and a Code of Conduct (including Insider Trading Policy). The articles of association, various sets of internal rules and by-laws and other corporate governance documentation are posted on the website alliander.com.

The Dutch Corporate Governance Code can be downloaded via the website commissiecorporategovernance.nl.



Management Board

The Management Board is tasked with the day-to-day management and is responsible for the strategy, the definition and achievement of the objectives, the development of the results and all relevant corporate social responsibility aspects. The Management Board is also responsible for the quality and completeness of the published financial reports, the risk management and control mechanisms, compliance with legislation and regulations and the financing of Alliander.

In addition to the statutory regulations and the relevant provisions in the articles of association, the Management Board must also adhere to the By-Laws of the Management Board. These By-Laws include the allocation of tasks between the individual Management Board members. Each and every change in this allocation of tasks requires the approval of the Supervisory Board. The entire Management Board carries collective responsibility, irrespective of each member's responsibility for the task assigned to him or her.

In view of Alliander's two-tier status, the members of the Management Board are appointed by the Supervisory Board, which notifies the General Meeting of Shareholders of proposed appointments. In 2015, the Management Board consisted of three members. More information about the members of the Management Board is given in the "Members of the Management Board" chapter in this annual report.

Supervisory Board

The Supervisory Board supervises the policy of the Management Board and Alliander's operations in general. The areas of responsibility of the Supervisory Board – or one of its internal committees – include the development of financial and operational results, the risks arising from Alliander's activities, the design and effectiveness of the risk management and control systems, major acquisitions and divestments, and regulatory compliance. The Supervisory Board performs its supervisory task with due regard to the corporate social responsibility aspects that are relevant to Alliander and the interests of all stakeholders. The Supervisory Board also acts as an advisory body of the Management Board and as the employer of the Management Board members.

In addition to the statutory regulations and relevant provisions in the articles of association, the Supervisory Board must also adhere to the By-Laws of the Supervisory Board. The Supervisory Board fulfils its duties as a collegiate body with collective responsibility.

The members of the Supervisory Board are appointed by the General Meeting of Shareholders (upon the nomination of the Supervisory Board¹). To be eligible for appointment or reappointment, a candidate must meet the criteria as set out in the profile². At the end of 2015, the Supervisory Board consisted of five members with one vacancy. More information about the members of the Supervisory Board is given in the "Members of the Supervisory Board" chapter in this annual report.

1. The General Meeting of Shareholders and the Central Works Council have a non-binding right of recommendation in respect of such nominations. In addition, both the General Meeting of Shareholders and the Central Works Council have an enhanced right of recommendation for one third of the number of Supervisory Board members.
2. The profile can be viewed as an annexe to the By-laws of the Supervisory Board on the website Alliander.com

Committees

The Supervisory Board has appointed two standing committees from among its members: the Audit Committee and a combined Selection, Appointment and Remuneration Committee. The duties of these committees are to provide the Supervisory Board with support and advice and to prepare the decision-making. Reports on the committee meetings are presented to the meeting of the full Supervisory Board and serve as the basis for the decision-making. The committees each have their own internal By-laws, setting out their duties, responsibilities and procedures. These By-laws – like the By-laws of the Supervisory Board – can be viewed on the website alliander.com.

General Meeting of Shareholders

The shares of Alliander are held by 56 public shareholders (municipalities and provinces). An overview of all shareholders can be found on the website alliander.com.

The shareholders of Alliander exercise their rights at the annual and extraordinary General Meetings of Shareholders. Every shareholder with voting rights is authorised to attend, speak and vote at the General Meeting of Shareholders. Alliander only has ordinary shares. Decisions are made with an absolute majority of votes, unless the law or the articles of association explicitly prescribe a larger majority.

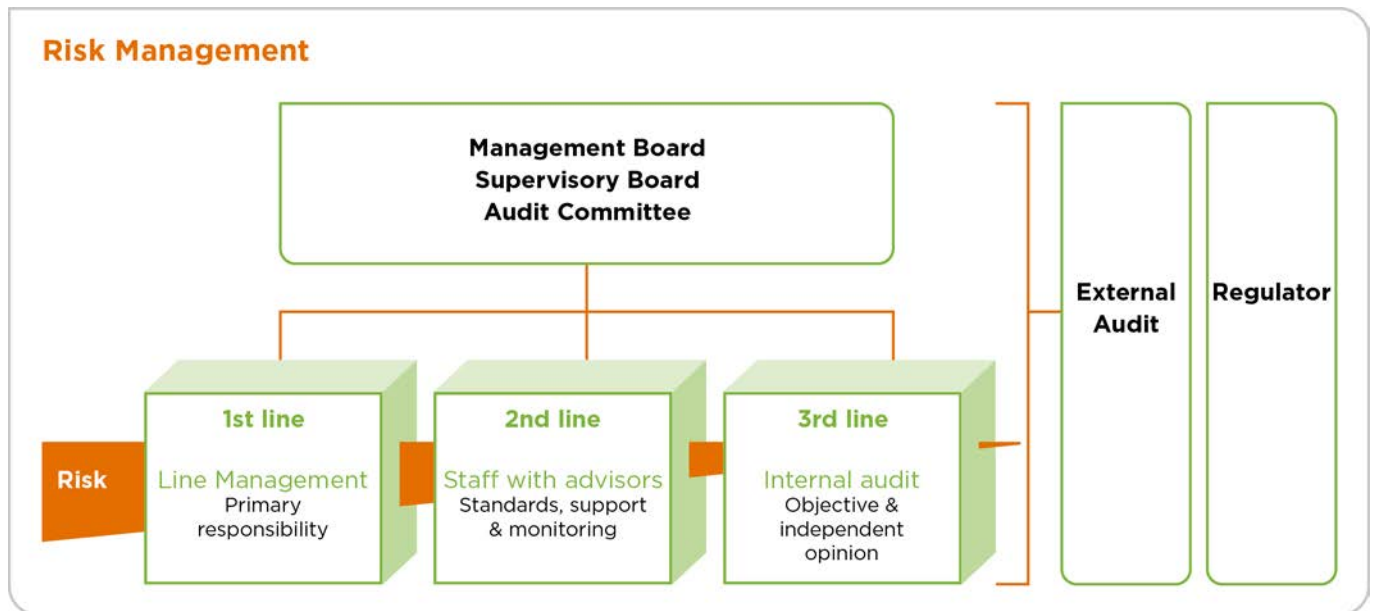
Where applicable, the following corporate governance subjects are dealt with during the annual General Meeting of Shareholders: appointment, reappointment or dismissal of members of the Supervisory Board, discharge from liability for the members of the Management Board and the Supervisory Board, the remuneration policy of the Management Board and the Supervisory Board and the appointment or reappointment of the external auditor. In addition, the Meeting of Shareholders decides on the adoption of the financial statements and the dividend and amendments to the articles of association. An overview of the most important powers can be found on the website. Certain powers of the shareholders have been allocated to a Committee of Shareholders. 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.

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. The Management Board endorses the significance of effective risk management. Last year, the risk management and internal control system was updated in line with internal and external developments. Particular attention was devoted to connecting activities more closely and creating a common risk management language.

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:



1. 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.
2. The second line provides support, advice and coordination to ensure that the management genuinely takes responsibility. It thus provides additional assurance within Alliander.
3. The third line provides additional assurance about the question whether the first and second lines can jointly guarantee that the level of control is sufficient to achieve the organisational objectives. They give an objective and independent opinion on this matter, including suggestions for possible improvements. The third line operates in complete separation 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 parts of this report. Management responsibility for supervising the quality of the control of our top risks also consists of three layers.

1. The Risk Management Committee. This committee, which is chaired by the CFO, advises the Management Board on the implementation of and compliance with the risk management policy and the internal control policy in relation to the corporate objectives. Among other things, the committee assesses risk reports, the control test results and the progress of actions taken on audit recommendations.
2. 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. The discussion of separate risks is frequently on the agenda and additional measures are initiated where necessary. 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. At the end of 2015, the Management Board performed a risk session in order to take stock of the strategic risks in relation to Alliander's revised strategy. The risks were viewed from various perspectives: employee safety, customer and reputation, engineering and technology, compliance, quality of service and financial aspects. As a result, management now has a clear and comprehensive picture of the key risks that may affect Alliander's strategy. These risks will be analysed in greater detail early in 2016.
3. 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 and a summary 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

The Internal Audit Department is an independent function that provides (additional) assurance regarding the control, effectiveness, efficiency and compliance of the operations to the Management Board and the management. In addition, Internal Audit functions within Alliander as a Fraud Disclosure Office. Every year, Internal Audit draws up an audit plan based on risk reports and audit findings. This plan, which contains the proposed audit engagements, is discussed with the management and put to the Management Board and the Audit Committee of the Supervisory Board for approval. The Internal Audit Director reports twice a year to the Management Board and to the Audit Committee about the progress of the implementation of the audit plan as well as the actions taken on the recommendations.

The Internal Audit Director acts under the responsibility of the chairman of the Management Board, holds regular consultation with the external auditor, has a reporting line to the chairman of the Audit Committee and takes part in the meetings of the Audit Committee. These powers are laid down in the Internal Audit Charter.

External auditor

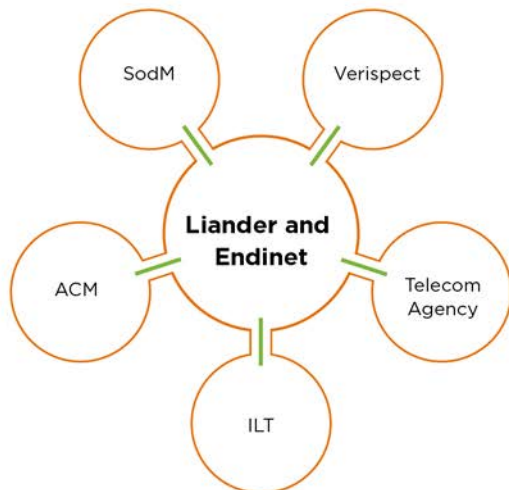
Alliander's external auditor is PricewaterhouseCoopers Accountants N.V. (PwC). The external auditor is appointed by the General Meeting of Shareholders upon the nomination of the Supervisory Board, which seeks advice from the Audit Committee and the Management Board. The auditor examines the consolidated and company financial statements of Alliander as well as the statutory financial statements of Alliander's subsidiaries and issues an audit opinion. Moreover, the external auditor also reports his findings each year to the Management Board and the Supervisory Board in the form of a management letter and an auditors' report. The auditor also examines the sustainability information in the annual report. This leads to an Assurance Report. The external auditor attends all meetings of the Audit Committee as well as the meeting of the Supervisory Board in which the financial statements and the external auditors' report on the annual audit are discussed. He is also present at the annual General Meeting of Shareholders in order to answer questions by shareholders about his opinion on the true and fair view of the financial statements and to clarify his auditors' report.

Owing to the mandatory rotation of audit firms¹, 2015 is the last year in which PwC audits the financial statements of Alliander. After a competitive, extensive and thorough European public procurement procedure for the selection of a new auditor, the Management Board and the Audit Committee have proposed to appoint Deloitte Accountants B.V. (Deloitte). On these grounds the Supervisory Board has decided to appoint Deloitte as the new external auditor on the basis of the mandate received during the General Meeting of Shareholders of 8 April 2015. The engagement comprises audit services for the statutory audit tasks of Alliander N.V. and will take effect from the start of the 2016 financial year. The duration of the engagement is four years with two extension options of two years each. Further clarification about this decision will be provided in the General Meeting of Shareholders on 7 April 2016.

Supervision of the network operators

As our network operators Liander and Endinet fulfil a vital role in society, their activities are carefully supervised by a number of external organisations. Among other things, they supervise compliance with specific legislation and regulations.

Overview of regulators



Roles of our regulators

- The Netherlands Authority for Consumers & Markets (ACM) supervises compliance with energy laws and regulations, and sets the permitted tariff level for all network operators.
- State Supervision of Mines (SodM) supervises the transportation of gas.
- The Telecom Agency oversees compliance with the excavation notification obligation and other regulations on excavation work.
- The Human Environment and Transport Inspectorate (ILT) oversees the safety of our gas mains above 16 Bar.
- Verispect supervises electricity and gas meters under the Dutch Metrology Act.

Compliance with the Dutch Corporate Governance Code

Provisions not applying to Alliander

Not all the provisions of the Code are applicable to Alliander. This is 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 the stock exchange. The principles and best practice provisions relating to share and option plans, the issuance of depositary receipts for shares and institutional investors are also not applicable.

The best practice provisions II.2.4 through II.2.7, II.2.13c, II.2.13d, III.2.2e, III.7.1, III.7.2, IV.1.1, IV.1.2, IV.1.7, IV.3.11 and IV.4.1 through IV.4.3 and the principles included under III.8 and IV.2 are not applicable.

Departures from the Code

Alliander complies with virtually all principles and best practice provisions of the Code. For a number of best practice provisions, Alliander adds a qualifying statement and/or does not apply the best practice provisions either in part or in whole. This concerns principle IV.1 and the best practice provisions II.1.1, II.2.3., II.2.8, II.2.14, III.5, III.5.11, III.6.5 and IV.3.1. We explain these departures in greater detail on the website alliander.com.

Corporate governance statement

This entire section may be regarded as the corporate governance statement referred to in Article 2a of the Decree on Additional Requirements for Annual Reports ('Vaststellingsbesluit nadere voorschriften inhoud jaarverslag') as amended most recently on 22 July 2013 ('the Decree'). The information required to be included in this corporate governance statement as referred to in Article 3a(a) of the Decree – namely the main features of Alliander's management and control system relating to its financial reporting – can be found in this chapter under Risk Management, and is deemed to be incorporated and repeated in this statement.

1. Pursuant to the Dutch Audit Profession Act (Wet op het accountantsberoep/Wab), audit firms are obliged, effective from 1 January 2016, to rotate after performing the annual audit at a public interest entity (PIE) such as Alliander, for eight consecutive years. PwC reached this maximum term with the audit of the 2015 financial year.

Members of the Management Board



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

P.C. (Peter) Molengraaf, MBA Chairman and Chief Executive Officer (CEO)

Career

Peter Molengraaf (1965) has been chairman of the Management Board and CEO of Alliander since 30 June 2009. From 2005 to 2009 he held various management positions at Nuon, lastly as chairman of the management board of the network operator. Prior to 2005, he held various positions at Shell, including Manager of the European Customer Service Centre, Cross-Business IT Manager and Commercial Director at Shell Nederland Verkoopmaatschappij.

Peter Molengraaf studied information technology at Delft University of Technology and obtained his MBA at Erasmus University's Rotterdam School of Management. Peter Molengraaf is a Dutch national.

Supervisory Board memberships / relevant other positions:

- Chairman of Netbeheer Nederland (Association of Energy Network Operators in the Netherlands)
- Chairman of the employers' association for Energy, Cable & Telecom and Waste & Environment Businesses (WENb)
- Member of the Supervisory Board of Vopak Nederland B.V. ¹
- Member of the High Level Group of the European Innovation Partnership (EIP) on Smart Cities and Communities (advisory body of the European Commission)
- Member of Board of Directors of European Distribution System Operators for Smart Grids (EDSO)

1. Supervisory position at a large legal entity within the meaning of the Dutch Management and Supervision Act (Wet Bestuur en Toezicht).

M.R. (Mark) van Lieshout Member and Chief Financial Officer (CFO)

Career

Mark van Lieshout (1963) has been a member of the Management Board and CFO of Alliander 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 and 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 of the Canisius-Wilhelmina Hospital.

I.D. (Ingrid) Thijssen
Member and Chief Operating Officer (COO)

Career

Ingrid Thijssen (1968) was appointed as a member of the Management Board from mid-May 2014; she is also responsible for the business and operational management of the network operator Liander. As a member of the Management Board Ingrid Thijssen also shares responsibility for the management, development and leadership of Alliander. From 2011 to 2014, she was Chair of 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 and completed various programmes, including Business Programs at the International Institute for Management Development (IMD) in Lausanne and the London Business School 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.
- Member of the Customer Centricity Advisory Board of the Dutch Banking Association.

Members of the Supervisory Board

Chairman

E.M. d'Hondt (1944)

Nationality: Dutch

First appointed to the Board on 30 June 2009

Current term ends in: 2017

Alliander committees: acting chairman of the Selection, Appointment and Remuneration Committee (until 1 August 2015)
Relevant previous positions: chairman of VSNU (Association of Universities in the Netherlands), Mayor of Nijmegen

Relevant other positions: chairman of the Supervisory Board of Brink Groep B.V.¹, member of the Supervisory Board of BMC Groep B.V.¹, Board chairman of the Netherlands Association of Municipal Health Departments and GHOR Netherlands, chairman of the Line Committee of the New Dutch Waterline, Board chairman of the Montesquieu Foundation, Board member of the Academy for Legislation, member of the Advisory Board of Netherlands Health Insurers.



Vice-chairman

J.C. van Winkelen (1945)

Nationality: Dutch

First appointed to the Board on 30 June 2009 Current term ends in: 2016

Alliander committees: chairman of the Audit Committee
Relevant previous positions: chairman of the Management Board of Vitens N.V., Director of N.V. Nuon Water
Relevant other positions: chairman of the Supervisory Board of Douma Staal B.V., member of the Supervisory Board of Water- en Elektriciteitsbedrijf Bonaire, vice-chairman of the Supervisory Board of Wetsus Centre of Excellence for Sustainable Water Technology, adviser to Hak N.V.



Ms J.G. van der Linde (1957)

Nationality: Dutch

First appointed to the Board on 29 October 2009 Current term ends in: 2017

Alliander committees: member of the Audit Committee
Profession/chief position: Director of Clingendael International Energy Programme
Relevant other positions: Professor of Geopolitics and Energy at the University of Groningen, member of the Supervisory Board of Wintershall Nederland B.V.¹, member of the Supervisory Board of Wintershall Noordzee B.V.¹, member of the International Advisory Board of KAPSARC



B. Roetert (1956)

Nationality: Dutch

First appointed to the Board on 19 February 2015 Current term ends in: 2019

Alliander committees: chairman of the Selection, Appointment and Remuneration Committee (from 1 August 2015)

Profession/chief position: Director/Owner of Advies, Bestuur en Toezicht (AB&T)

Relevant previous positions: CEO of Schuitema N.V. and Board chairman of Friesland Foods West Europe

Relevant other positions: Board chairman of Centraal Bureau Levensmiddelen (CBL), Board chairman of Food Valley NL, chairman of the Supervisory Board of Jan Linders Supermarkten¹, chairman of the Supervisory Board of BVO Vitesse Arnhem, chairman of the Supervisory Board of Scherpenzeel B.V., member of the Supervisory Board of Rabobank Westland (until 31

December 2015), member of the Supervisory Board of Royal Smilde¹, member of the Supervisory Board of Streekselecties, chairman of the Advisory Council of SMEVA Valkenswaard, member of the Advisory Council of Advies Hessing Supervers, Treasurer of Afvalfonds Verpakkingen, Board Member of DDL/DDZ Duurzaam Levensmiddelen Keten



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

Nationality: Dutch

First appointed to the Board on 30 June 2009 Current term ends in: 2016

Alliander committees: member of the Audit Committee and acting member of the Selection, Appointment and Remuneration Committee

Profession/chief position: management consultant on strategy and governance/Director of Stranergy Consultancy

Relevant previous positions: CEO of Currence Holding B.V., CEO of KPN Business Solutions Division, member of the Executive Board of Achmea Bank Holding N.V., Board chairman of Staalbankiers N.V.

Relevant other positions: member of the Supervisory Board of LeasePlan Corporation N.V.¹, member of the Supervisory Board of the Netherlands Public Broadcasting Company¹ (until 31

December 2015), chairman of the Accountancy Monitoring Committee, adviser for the National Register of Supervisory Directors and Regulators, Board member of Stichting Preferente Aandelen Nedap, core team member of the Supervisory Director Programme ESAA/Erasmus University



1. Position with other organisation that is qualified as relevant within the meaning of the Management and Supervision Act.

Report of the Supervisory Board

The Supervisory Board of Alliander supervises and advises the Management Board with respect to the formulation and realisation of the company's objectives, strategy and policy. The Supervisory Board also acts as the employer of the Management Board members. In this report the Supervisory Board accounts for the manner in which it fulfilled its tasks and powers in the past year.

Report on the supervisory task of the Supervisory Board



Realisation of corporate objectives

The realisation of the objectives is clearly a key focus area for the Supervisory Board. It also monitors whether the organisation is designed in such a manner that timely adjustments can be made to changing conditions.

Each year, Alliander draws up an operational year plan, in which the strategic objectives are translated into concrete and measurable operational corporate objectives by means of a balanced scorecard (dashboard). The corporate objectives are defined from four perspectives: safety, customers, employees, and shareholders & investors. The Supervisory Board has concluded that the quarterly reports generate adequate information to monitor the progress of the realisation of the corporate objectives. The specific corporate objectives that Alliander sets in a year are defined in the form of measurable financial and non-financial key performance indicators (KPIs) and are adjusted whenever necessary. The year plan 2015 that we approved, as well as the underlying corporate objectives, were largely achieved.

The Supervisory Board looked closely at the impact of the development of results, the balance sheet ratios and the financial position on the company's creditworthiness. The Board notes with satisfaction that Standard & Poor's (AA-/A-1+ with stable outlook) maintained its credit rating in 2015. Moody's increased its long-term credit rating in 2015 from Aa3 to Aa2 with stable outlook and reconfirmed the short term rating at P-1.

Strategy and risks

In 2015, the Supervisory Board extensively discussed Alliander's strategic direction with the Management Board. What are the consequences of the energy transition and what is its impact on the reliability, affordability and accessibility of energy? What is the future of the gas networks? What do the new business models look like? This review produced a revised strategy. The Supervisory Board made an active and professional contribution to this process. The revised strategy provides guidance and focus for the direction in which Alliander intends to move in the coming period, and ensures that Alliander can respond adequately to the changing energy landscape.

With a view to the upscaling in the Netherlands, and after giving due and careful consideration to the strategic, financial, operational and social aspects, the Supervisory Board approved the sale of the Endinet Group to Enexis in combination with Alliander's acquisition of the activities of Enexis in Friesland and the Noordoostpolder. The transfer of the electricity and gas networks in the respective regions into single ownership creates transparency for customers and local administrators and enhances operational efficiency.

At the end of 2015 it became clear that Minister Kamp (Economic Affairs) wants to press ahead with the unbundling of the Delta and Eneco energy companies, despite the draft bill ('STROOM') being rejected by the Dutch Senate. A majority of the Senate voted against the STROOM bill because it also provided for the unbundling of the energy companies into a network company and a commercial production company (known as the 'group ban'), even though the existing Gas Act and Electricity Act 1998 already provide for the group ban and the Supreme Court ruled on 26 June 2015 that the group ban is not incompatible with EU law. So the rejection of the draft bill does not mean that the group ban is no longer on the table. Earlier, the ACM already ordered Delta and Eneco to unbundle their network companies by no later than, respectively, 30 November 2016 and 31 January 2017.

Design and effectiveness of internal risk management and control systems

The findings from the internal audits were discussed, as were the actions taken on the resulting recommendations. The Supervisory Board monitors the progress of these actions every six months on the basis of 'in control' reports from the Internal Audit Department. The Supervisory Board has observed that limited improvements were made to the internal control system in 2015.

In addition, the management letter from PwC, containing the 2015 interim audit findings regarding the internal controls, was discussed with the Audit Committee and the Supervisory Board. During the interim audit, the auditor found that the quality of the internal controls is comparable to that of the previous year. One point for improvement concerned the extent of progress made in resolving the findings. In response, the Management Board took measures to implement the initiated improvement plans with greater focus and urgency. It was also agreed to discuss the follow-up of the audit findings every six months. Another subject discussed with the auditor concerned the actions taken to address the identified theft of operating assets. Specific attention was devoted to the scope of Alliander's investigation and the severity of the sanctions.

The interim audit contains one significant new finding, namely that the systems fail to achieve a 100% separation of duties in the sales process. It was established that no breaches of the separation of duties requirement occurred in this process in 2015. Meanwhile, Alliander has taken control measures to remedy the identified risk. In addition, six findings from previous years that had not yet been entirely resolved were included in the letter.

The Supervisory Board received no indications of any deficiencies in the effectiveness of Alliander's risk management and control system with respect to the control objectives in the field of financial reporting in the year under review.

In addition, the design and effectiveness of the risk management system, the main risks to which Alliander is exposed and possible additional mitigation and control measures were discussed every quarter.

Financial reporting

Alliander draws up monthly reports and issues quarterly reports to the Supervisory Board. The financial quarterly reports, where the actual results are compared with the budget 2015, the annual forecast 2015 and the results for 2014, were intensively discussed. Subjects raised included the settlement of a financial instrument relating to cross-border leases, the sufferance tax costs, the book profit from the sale of the Endinet networks (which will be recognised in 2016) and the movement in the number of FTEs.

In addition, the Supervisory Board discussed in detail Alliander's annual report and financial statements for 2014 in the presence of the external auditor, including the independent auditor's report and the proposed profit appropriation. The Supervisory Board also reviewed Alliander's 2015 half-year report, including the external auditors' report on their findings. Furthermore, the operational year plan 2016 (including investment budget) was reviewed and approved, and the business plan 2016-2020 was discussed. The Audit Committee of the Supervisory Board carried out intensive preparatory work on all these matters.

Compliance with legislation and regulations

In conformity with the Electricity Act 1998 and the Gas Act, the Netherlands Authority for Consumers & Markets (ACM) supervises the network operators' compliance with their statutory obligations. The ACM is vested with supervisory and enforcement powers, including the power to request information and impose sanctions, such as administrative penalties. In 2015, the Supervisory Board was informed about various investigations conducted by the ACM. One investigation concerned the allegation that Liander had given preferential treatment to Alliander's subsidiary Allego. Another ACM investigation was initiated after a market party lodged an enforcement request regarding some of Alliander's activities. The first investigation relating to Allego has now been completed and found that the Electricity Act 1998 is being respected. The second investigation is still in progress.

The Supervisory Board was also informed of a ruling of the Enlarged Trade and Industry Appeals Tribunal (Grote Kamer van het College van Beroep voor het bedrijfsleven (CBB)) about the fine imposed by the ACM on Liander because of the alleged violation of the network operator's confidentiality obligations under the Electricity Act 1998 and the Gas Act. The CBB found that ACM had unjustly imposed a fine of €3.3 million on Liander. The ACM was of the opinion that Liander had failed to exercise sufficient care in protecting customer data. According to the CBB, there is no evidence whatsoever of any violation of the confidentiality obligation. In 2015, the ACM repaid the amount of €3.3 million. Regarding the binding instruction that was imposed in the same connection and was also overturned by the CBB, Liander has submitted a claim of about €1 million to the ACM for compensation of costs incurred.

In addition, the half-yearly 'Fraud & Incidents' reports of the Internal Audit Department were discussed in the Audit Committee's meetings. Items reported include violations of the Code of Conduct applicable within Alliander and any instances of fraud and theft reported to the Fraud Disclosure Office. Internal Audit carried out various compliance audits to ascertain whether Alliander is compliant with relevant legislation and regulations as well as its internal regulations, standards and values. The Supervisory Board gave consideration to a number of fraud cases that occurred in the year under review and found that the Management Board had taken adequate measures. The Supervisory Board sees integrity as a matter of the utmost importance.

The Management Board kept the Supervisory Board informed of the progress and developments regarding the most important legal claims and proceedings and about the possible impacts of changing laws and regulations.

Relationship with shareholders

The key channel for contacts between the Supervisory Board and the shareholders is the meeting of shareholders. The full Supervisory Board attended the annual General Meeting of Shareholders. At this meeting, the financial statements for 2014 were adopted and the shareholders approved the procedure for the appointment of the external auditor by the Supervisory Board. The members of the Supervisory Board twice attended an Extraordinary General Meeting of Shareholders in different compositions. At these meetings, the shareholders appointed Mr Roetert as a new member of the Supervisory Board and approved the exchange of networks between Alliander and Enexis.

The Supervisory Board is of the opinion that contacts between the company and shareholders outside the formal setting of shareholder meetings are also important, both for the company and the shareholders. Alliander has outlined a policy for bilateral contacts between the company and its shareholders, which is posted on Alliander's website. In 2015, the Management Board consulted five times with the major shareholders. Three of these consultative meetings were attended by the chairman of the Supervisory Board, and one meeting was attended by the vice-chairman. Topics discussed included the exchange of networks between Alliander and Enexis, the outcome of the audit services procurement process, the renewed strategy, the STROOM bill and the large-scale roll-out of the smart meter.

In 2015, the Supervisory Board twice sought advice from the Committee of Shareholders regarding vacancies in the Supervisory Board. It also consulted with the Committee about the remuneration policy for the Management Board in relation to the Public and Semi-Public Sector Executives' Pay (Standards) Act (WNT). The Supervisory Board attaches great value to the open dialogue with the shareholders.

Relevant CSR aspects

Corporate Social Responsibility (CSR) is an integral part of Alliander's strategy. The progress on the objectives for safety, outage duration, customer satisfaction, socially responsible procurement and reduction of the company's own emissions is monitored by the Supervisory Board on the basis of quarterly reports.

The Management Board regularly informed the Supervisory Board about topical safety issues, such as gas faults and the outcomes of related investigations by, for instance, the Dutch Safety Board (OvV). The Supervisory Board agrees wholeheartedly with the Management Board that safety is a top priority. Both the incidents themselves and the initiated or proposed measures are discussed wherever useful and necessary.

Good examples of sustainability initiatives in 2015, as noted by the Supervisory Board, included the greening of network losses (the energy lost during the transmission of electricity), the development of the Fair Meter (a smart meter made of reusable materials) and the construction of the sustainable office in Duiven.

In 2015, Alliander ranked 9th in the Transparency Benchmark of the Ministry of Economic Affairs (2014: 15th). According to the Supervisory Board, this confirms Alliander's commitment to transparency and integrated reporting. The aim is to provide more openness on the social impact of our activities in the coming years. The external auditors' opinion on the corporate social responsibility report is given in the Assurance Report, which forms part of this annual report. Regarding the sustainability information, the assurance level for the Alliander dashboard was increased last year to 'reasonable assurance'. The other parts of the sustainability information were given 'limited assurance' (with the exception of the GRI table). Reasonable assurance was also obtained for the materiality test in the report of 2015.

Other subjects

WNT

Attention was also devoted to the application of the Public and Semi-Public Sector Executives' Pay (Standards) Act (Wet normering topinkomens (WNT)). Partly in response to Parliamentary questions that were prompted by a press publication, the WNT Supervision Unit of the Dutch Ministry of the Interior initiated a further investigation. The Dutch House of Representatives was informed of the final conclusions. Minister Plasterk confirmed that the network company Alliander and its Management Board do not fall within the scope of the WNT. However, the network operator Liander is subject to the WNT. In 2013, Alliander adopted, on its own initiative, the WNT1 standard (130% of a minister's remuneration) as the company-wide remuneration cap. This means that since 2013 no new employees have been engaged with remuneration above the WNT1 limit. According to the Supervisory Board, any further reduction of this limit would seriously jeopardise the company's position in the labour market. The Supervisory Board is promoting the introduction of a sector-wide remuneration code with different categories in order 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.

Various other subjects

In addition, the Supervisory Board determined the realisation and the objectives for the short- and long-term variable remuneration of two Management Board members, Messrs Molengraaf and Van Lieshout. In 2015, the members of the Management Board were no longer permitted to accrue pension on the portion of their salary above €100,000. The Supervisory Board has therefore decided to extend the application of Alliander's pension contribution release arrangement, as applicable to the employees of Alliander, to the members of the Management Board by incorporating the released pension contribution into their salary. The decision-making on these subjects is prepared by the Selection, Appointment and Remuneration Committee of the Supervisory Board.

Various other subjects were also put to the Board for decision-making. These included the investment proposal for the redevelopment of the corporate accommodation in the east of the Netherlands, the appointment – on the recommendation of the Management Board and the Audit Committee – of Deloitte as Alliander's new external auditor, a proposal to amend the articles of association of Alliander N.V., the procedure for filling vacancies in the Supervisory Board of Alliander and the governance of Liander.

The Supervisory Board also discussed the initiated changes in Liander's culture and business processes in order to realise the company's ambition to be an excellent network operator. The Supervisory Board will follow the progress on this issue with great interest.

Other subjects discussed were:

- the outcomes of the annual employee survey;
- the outcomes of the annual customer satisfaction survey;
- the preparation for the annual shareholders' meeting and two extraordinary shareholders' meetings;
- customer service;
- topical issues in the field of safety, such as accidents and related investigations;
- governance and the provision of information on new activities;
- a management development session relating to succession and talent development;
- an update on the large-scale smart meter roll-out.

Senior employees from the organisation regularly attended meetings of the Supervisory Board during the discussions of subjects within their specific areas of expertise. It has been agreed that in 2016 the Supervisory Board will combine at least two meetings with a project or company visit in order to deepen its knowledge of the company.

Composition and reporting of committees

The Supervisory Board has two committees, namely an Audit Committee and a Selection, Appointment and Remuneration Committee. These committees advise and prepare the decision-making of the Supervisory Board within their respective areas of expertise. The discussions and findings of both committees are reported verbally in the full meetings of the Supervisory Board. The minutes of the Committees' meetings are made available to all members of the Supervisory Board.

Audit Committee

In 2015, the Audit Committee consisted of Mr Van Winkelen (chairman), Ms Van der Linde and Ms Van der Veer-Vergeer. The last-mentioned member qualifies as a 'financial expert' within the meaning of best practice provision III.3.2 of the Dutch Corporate Governance Code (the Code). The composition of the committee remained unchanged.

The committee met five times in 2015, according to the fixed schedule. Apart from the Committee members, all meetings were also attended by the CFO, the Internal Audit Director, the Corporate Control Manager, the Governance, Risk & Compliance Manager and the external auditor. In addition, the Committee held one meeting with the external auditor – without 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. In addition, the Audit Committee held separate consultations with the CFO, the Internal Audit Director and the General Affairs Director (in connection with compliance). The points that emerged from these discussions were put to the full Supervisory Board.

The Audit Committee assessed and discussed all relevant financial matters that were presented to the Supervisory Board, including the annual report 2014 and the financial statements for that year, the quarterly and half-yearly figures 2015, the reports of the internal and external auditor, the operational year plan 2016, the investment budget 2016 and the business plan 2016-2020. The Audit Committee also spoke at length about the financial aspects of the network exchange transaction with Enexis. Furthermore, the Audit Committee addressed several other subjects within its area of responsibility, more specifically the risk reports, the financial policy and the financing activities 2015-2017, the internal controls, tax issues, the IT risk management, impairment testing, position papers (including about the possible impacts of the proposed STROOM legislation), the IFRS regulatory developments and the financial results of the participations and activities in new markets.

In view of the mandatory rotation of the external auditor, the selection procedure for appointing the new auditor also received considerable attention. A European procurement procedure was carried out for this purpose. The extensive selection procedure took place under the direction of the Audit Committee, in cooperation with the CFO and the management. Based on the received proposals, the presentations of potential teams, obtained references and the proposed transition plans, the Audit Committee and the Management Board arrived at the conclusion that Deloitte would be the most suitable candidate to carry out the audit tasks effective from 2016.

Selection, Appointment and Remuneration Committee

From 1 January to 1 August 2015, the chairman of the Supervisory Board, Mr d'Hondt, acted as temporary chairman of the Selection, Appointment and Remuneration Committee on account of the premature departure of two members of the Supervisory Board who were also, respectively, chairman and member of the Selection, Appointment and Remuneration Committee. This chairmanship represented a departure from best practice provision III.5.11 of the Code. Mr Roertert was appointed as a member of the Supervisory Board effective from 20 February 2015. On 8 April 2015, he was appointed as a member of the Selection, Appointment and Remuneration Committee; on 1 August 2015, he took up the role of chairman of the Selection, Appointment and Remuneration Committee. As a result, this departure from the Code has now been resolved. In addition, Ms Van der Veer-Vergeer acted as a deputy member in 2015.

In 2015, the committee held three scheduled and two unscheduled meetings, partly in the presence of the chairman of the Management Board. The HRM Director also attended all meetings. In 2015, the Committee dealt with diverse matters, including the objectives for the short- and long-term variable remuneration and the award of the short- and long-term variable remuneration. The Committee also prepared the Remuneration Report.

In addition, attention was devoted to the adjustment of the pension provision for the members of the Management Board in response to changes to tax legislation. Furthermore, the Committee was informed of the outcomes of the Internal Audit Department's audit of the Management Board's expense claims.

The consequences of the WNT were also discussed at length. The Committee had a meeting with the regulator who supervises compliance with the WNT and consulted with the Committee of Shareholders about this issue.

In view of the existing Supervisory Board vacancies, the Committee also dealt at length with the composition of the Supervisory Board. The Committee discussed these vacancies several times with the Committee of Shareholders and the Central Works Council and held interviews with the candidates for the vacant posts.

Finally, the Committee conducted individual appraisal interviews with the members of the Management Board as part of the assessment of the Management Board's performance in 2015.

Internal organisation

Composition of the Management Board.

The composition of the Management Board remained unchanged in 2015. The Management Board consists of:

- Mr P.C. Molengraaf, chairman/CEO
- Mr M.R. van Lieshout, member/CFO
- Ms I.D. Thijssen, member/COO

The male/female ratio in the Management Board is 67%/33% and is thus in line with the diversity objective of the Management and Supervision Act (Wet Bestuur en Toezicht).

Other positions held by the Management Board members outside the company are reported to the chairman of the Supervisory Board and disclosed in the annual report. The members of the Management Board do not hold any other positions that are in conflict with the interests of Alliander.

None of the members of the Management hold more than two supervisory board positions in large legal entities within the meaning of the Management and Supervision Act. Nor do any of the members act as chairman of a Supervisory Board. This is in accordance with the Management and Supervision Act and the Code.

In the 2015 financial year, there were no transactions involving a conflict of interests of Management Board members (within the meaning of provisions II.3.2 to II.3.4 of the Code).

Composition of the Supervisory Board

The Supervisory Board saw two members depart prematurely: on 15 December 2014, Ms J.W.E. Spies resigned from the Board because of her appointment as mayor of Alphen aan den Rijn, while Mr F.W. Briët resigned for health reasons with effect from 1 January 2015. The Supervisory Board thanks both members for their sustained and dedicated service to Alliander, the pleasant contacts and their contributions to the proper functioning of the Supervisory Board.

Mr Briët was succeeded by Mr B. Roetert, who was appointed at an Extraordinary General Meeting of Shareholders held on 19 February 2015, upon the nomination of the Supervisory Board and with a positive recommendation from the Central Works Council. Mr Roetert has extensive management experience in the international business community, and also brings profound knowledge of the consumer market to his new post. His knowledge and experience represent valuable additions to the existing expertise within the Supervisory Board. His appointment makes a good fit with the Board's profile. The vacancy arising from the departure of Ms Spies was not yet filled in 2015.

Mr J.C. van Winkelen was due to retire by rotation from the Supervisory Board after the end of the General Meeting of Shareholders in 2015. He initially indicated that he would not be available for reappointment on account of his age but – in view of the situation that had arisen – agreed to make himself available for a further period of no more than one year in order to assure the continuity of the Supervisory Board. On 8 April 2015, the General Meeting of Shareholders reappointed Mr Van Winkelen upon the nomination of the Supervisory Board and with a positive recommendation from the Central Works Council for a period of one year.

Effective from February 2016, the Supervisory Board consists of five members who were appointed according to the following schedule of resignation.

	Appointed	Reappointed	Retirement reappointment
E.M. d'Hondt (chairman)	2009	2013	AGM 2017
J.C. van Winkelen (vice-chairman)	2009	2011/2015	AGM 2016
Ms J.G. van der Linde	2009	2013	AGM 2017
B. Roetert	2015	n/a	AGM 2019
Ms A.P.M. van der Veer-Vergeer	2009	2012	AGM 2016

The reappointment of Mr Van Winkelen will end after the General Meeting of Shareholders on 7 April 2016. As noted, Mr Van Winkelen will not make himself available for reappointment. Ms Van der Veer-Vergeer will also retire from the Supervisory Board after the end of the upcoming General Meeting of Shareholders. She has indicated that she is available for reappointment. During the General Meeting of Shareholders in 2016, the Supervisory Board will nominate candidates for filling the vacancies arising from the departure of Ms Spies and Mr Van Winkelen and nominate Ms Van der Veer-Vergeer for reappointment.

Mr E.M. d'Hondt is due to retire after the end of the annual General Meeting of Shareholders in 2017. However, as already announced, he has decided not to complete his full term and will retire on 1 July 2016. The Supervisory Board has decided not to fill this vacancy for the time being. After performing its duties for a number of months in the new composition, the Supervisory Board will review whether this vacancy needs to be filled again. The envisaged successor of Ms Spies will take over as chair of the Supervisory Board on 1 July 2016.

Profile, competences and diversity

The Supervisory Board has drawn up a profile for its composition. The profile takes account of the specific nature of the company and its activities and the desired expertise and background of the members of the Supervisory Board. Diversity is also important, not just in terms of expertise and background but also gender and age. The Supervisory Board is of the opinion that diversity enhances the decision-making of the Board as a collegiate body. The profile was evaluated in 2015 and certain adjustments were made. These adjustments were explained and discussed during the General Meeting of Shareholders on 8 April 2015. The adjusted profile can be viewed on the corporate website alliander.com.

The composition of the Board was diverse in 2015; the members had backgrounds in different sectors as well as professional knowledge and experience in a variety of fields. The ages are also sufficiently diverse, with years of birth ranging from 1944 to 1959. The male-female ratio in the Supervisory Board was 60%/40% and met the diversity target (at least 30% male and at least 30% female) under the Management and Supervision Act. Vacancies within the Board are filled with due regard to the importance of a balanced composition. The primary consideration when appointing candidates is the quality and suitability of the candidates for the vacant position.

Quality assurance and supervision

Self-assessment

The self-assessment of the Supervisory Board in 2015 was carried out without external assistance. It involved a discussion of the performance of the Supervisory Board as a whole and of the individual members, the working relationship between the Supervisory Board and the Management Board, and the performance of the committees.

In general, the members of the Supervisory Board are satisfied with the functioning of the Supervisory Board as a whole. Specific reference is made to the constructive and pleasant cooperation and the highly substantive discussions. The members of the Supervisory Board believe that things are going better than in previous years. However, the supervisory role has become much more time-consuming. The WNT and the network exchange between Enexis and Alliander in particular required a lot of time and attention in the past year. There were few comments about the performance of the individual members. The considerable diversity in the composition is greatly appreciated and leads to more balanced discussions.

The relations between the Supervisory Board and the Management Board are perceived to be open and mature. The Supervisory Board is of the opinion that 'operations' and 'significance of costs' are themes that still receive too little attention. In addition, the Board would appreciate a better insight into the quality of human resource management within the organisation. Improvement in the quality and effectiveness of the provision of information was also discussed.

The self-assessment revealed that the members were satisfied with the current performance of the committees. One point of concern is that more members of the Audit Committee should have specific financial knowledge. The same applies to the Supervisory Board as a whole incidentally. This should receive increased attention as part of the lifelong learning process.

Education

The Supervisory Board has put in place a learning programme that is designed to maintain and broaden the knowledge and expertise of the Supervisory Board members. In this connection, Mr F. Rooijers, Director of the research and consultancy organisation CE Delft, presented a report on the network of the future ('Net voor de toekomst'). This report sets out the impacts of the current sustainability drive on the gas and electricity networks. The Supervisory Board found the presentation informative and instructive.

The new Supervisory Board member Mr Roetert went through an induction programme, including introductory meetings with the members of the Management Board. In addition, attention was devoted to the corporate governance of Alliander, the company's operational activities and the responsibilities associated with the supervisory board membership. Finally, Mr Roetert was given a guided tour of the operational centre in Arnhem and conducted informative talks with the executive committee of the Central Works Council and several key officers within Alliander.

Insider Trading Policy

All members of the Supervisory Board have signed a statement confirming their compliance with the Insider Trading Policy. The purpose of this policy is to prevent the use of insider knowledge and conflicts of business and personal interests (or any semblance thereof) in relation to certain transactions. Anyone directly or indirectly involved in Alliander's transactions in financial instruments or who may have access to insider knowledge is regarded as an insider.

Independence and conflicts of interest

The By-laws of the Supervisory Board contain regulations relating to independence, other positions outside the company and conflicts of interest. The composition of the Supervisory Board is designed to ensure that the members are able to act independently within the meaning of the Code vis-à-vis each other, the Management Board or any additional interest. All members of the Supervisory Board are independent within the meaning of best practice provision III.2.2 of the Code. Due to her membership of the Supervisory Boards of 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 members of the Supervisory Board 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.

Other positions held by the Supervisory Board outside the company are reported to the chairman of the Supervisory Board and are disclosed in the annual report. None of the Supervisory Board members hold a position outside the company that is in conflict with their Supervisory Board membership at Alliander.

As none of the Supervisory Board members hold more than five supervisory board positions at Dutch listed companies, Alliander is in compliance with provision III.3.4 of the Code. Nor do any of the members of the Supervisory Board hold more than five supervisory board positions in large legal entities within the meaning of the Management and Supervision Act.

In 2015, there were no material transactions involving conflicts of interest of Supervisory Board members (within the meaning of provisions III.6.1 to III.6.3 of the Code), nor did any material transactions take place between Alliander and natural persons or legal entities holding at least 10% of the shares in the company (within the meaning of provision III.6.4 of the Code). The other transactions with the major shareholders are disclosed in the financial statements.

Other business

Meetings

In 2015, the Supervisory Board held seven scheduled meetings. Prior to each scheduled meeting the Supervisory Board comes together in a half-hour 'SB-only' session. This gives the members an opportunity to exchange views and determine the main points for discussion in the meeting with the Management Board. Remuneration matters and topical issues were also addressed in these sessions. The outcomes of the SB-only sessions are shared in the actual meetings. In addition, the Supervisory Board met five times with the Management Board about specific issues, such as the network exchange between Enexis and Alliander, the company's strategic direction and the WNT.

All these Supervisory Board meetings were held at the head office in Arnhem, except for one meeting at the renewed location in Duiven. There were also three conference call meetings. Before the meeting in Duiven, the members of the Supervisory Board were given a guided tour of the sustainably renovated building. In addition, the committees held a total of ten meetings.

Meetings	Number
Supervisory Board	12
Audit Committee	5
Selection, Appointment and Remuneration Committee	5

Virtually all Supervisory Board meetings were attended by the full Management Board. None of the Supervisory Board members were frequently absent. Two Supervisory Board members were unable to be present at one meeting. One Supervisory Board member was absent at two meetings. They provided their contributions in writing and/or by telephone in advance.

Attendance at meetings in 2015

	E.M. d'Hondt	J.C. van Winkelen	B. Roetert 1)	J.G. van der Linde	A.P.M. van der Veer-Vergeer 2)
Supervisory Board	12	11	9	10	11
Audit Committee	n/a	5	n/a	5	5
Selection, Appointment and Remuneration Committee	5	n/a	4	n/a	5

1. Appointed as member of the Supervisory Board effective from 20 February 2015
2. Due to the premature departure of two members of the Selection, Appointment and Remuneration Committee, Ms Van der Veer-Vergeer acted as deputy member in 2015

Ms M.I.I. Miener, General Counsel, and Ms M.M.A. de Blik, Manager of the Corporate Secretariat, act respectively as secretary and deputy secretary of the Supervisory Board. The agendas of the meetings are prepared by the chairman of the Supervisory Board in consultation with the chairman of the Management Board, the secretary and the deputy secretary.

Contacts with the Central Works Council

In 2015, several talks took place between the Central Works Council and Ms Van der Linde, the Supervisory Board member who was appointed on the basis of the enhanced right of recommendation of the Central Works Council. The issues discussed included the staffing consequences of the network exchange between Enexis and Alliander. Consultation also took place with the Central Works Council about the Supervisory Board appointments and reappointments.

The Supervisory Board attaches great value to the good relationship with the Central Works Council.

Adoption of financial statements, dividend proposal and discharge from responsibility

The financial statements were audited by PricewaterhouseCoopers Accountants N.V., which issued an unqualified opinion. This statement is included in this annual report under 'Other information'.

The Supervisory Board extensively discussed the annual report with the Management Board and the external auditor and took note of the Audit Committee's findings. Based on this consultation, the Supervisory Board is convinced that this annual report meets the statutory provisions as well as the governance and transparency requirements. It forms a good basis for the Supervisory Board to account for its supervision during the year. The Supervisory Board members have signed the financial statements in conformity with their statutory obligation under Section 2:101 (2) of the Dutch Civil Code.

The Supervisory Board recommends the adoption of the financial statements for 2015, including the proposed profit appropriation, at the General Meeting of Shareholders on 7 April 2016, taking account of all statutory provisions and the articles of association. Furthermore, the Supervisory Board proposes to discharge the Management Board and the Supervisory Board from responsibility for, respectively, their management and supervision in the past financial year.

A final word

The Supervisory Board thanks the Management Board and all employees for their hard work and the results achieved in the past year.

Arnhem, 22 February 2016

Supervisory Board

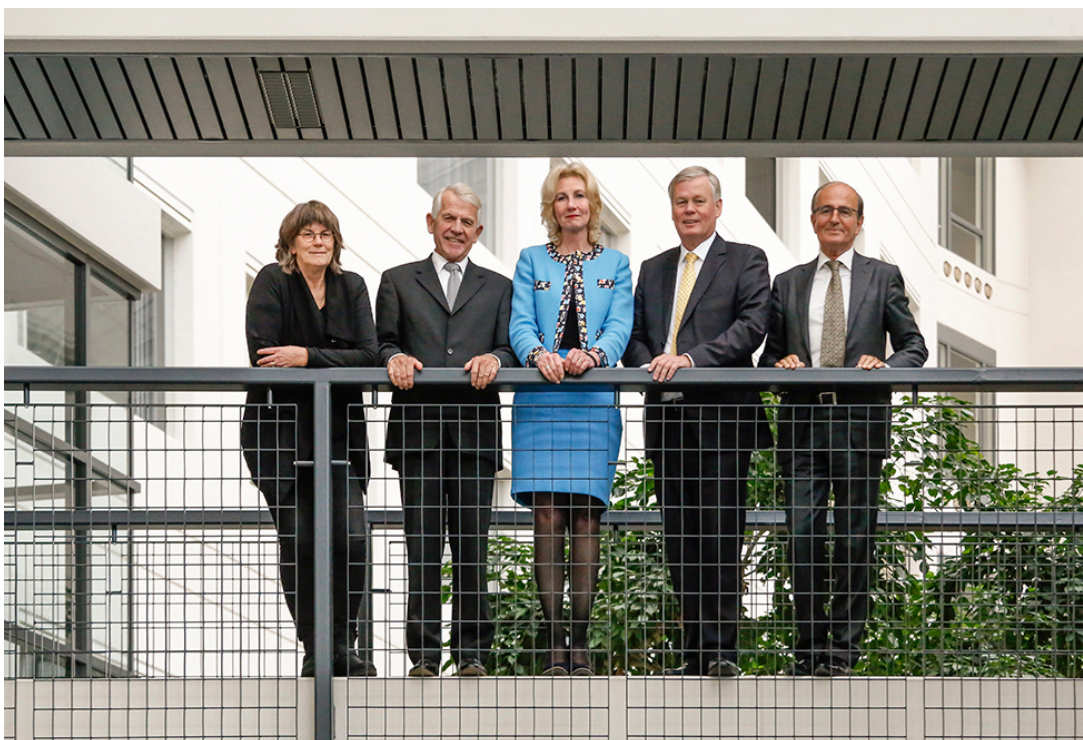
E.M. d'Hondt, chairman

J.C. van Winkelen, vice-chairman

Ms J.G. van der Linde

B. Roetert

Ms A.P.M. van der Veer-Vergeer



Remuneration report

This remuneration report was prepared by the Selection, Appointment and Remuneration Committee on behalf of the Supervisory Board. It contains an account of the remuneration policy for the Management Board of Alliander as applied and implemented in 2015. The report also sets out the remuneration policy for the members of the Supervisory Board. An overview of the remuneration awarded to the members of the Management Board and the members of the Supervisory Board for 2015 can be found in the notes to the consolidated financial statements.

Remuneration policy for the Management Board

General

The remuneration policy 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. In addition, the remuneration policy must support the achievement of the company's short- and long-term objectives. The applicable remuneration policy was adopted by the General Meeting of Shareholders in May 2004 and was last amended in April 2006.

The Dutch Public and Semi-Public Sector Executives' Pay (Standards) Act (Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector - WNT¹⁾) took effect on 1 January 2013. The Act is designed to moderate the remuneration of senior executives within the public and semi-public sector and caps their remuneration at 130% of a minister's remuneration. On 1 January 2015, the Reduction of Maximum Remuneration Act WNT (Wet verlaging bezoldigingsmaximum WNT - WNT²⁾) took effect, reducing the maximum remuneration to 100% of a minister's remuneration.

The WNT is applicable to the network operators Liander and Endinet. Alliander does not fall within the scope of the WNT. In mid-May 2014, Ms I.D. Thijssen was appointed as a member of the Management Board. In this capacity she carries general responsibility for the management of Alliander. In addition, she is responsible for the business and operational management of the network operator Liander. In this latter capacity, Ms Thijssen is a senior executive of Liander within the meaning of the WNT. Her remuneration package is in conformity with the WNT.

The Supervisory Board is responsible for the implementation of the remuneration policy for the Management Board and is acutely aware of the evolving perceptions within society regarding remuneration in the public and semi-public sector. Accordingly, the remuneration cap of 130% of a minister's remuneration was introduced with effect from 1 January 2013 for the entire company, despite the fact that Alliander does not fall within the WNT. Messrs P.C. Molengraaf and M.R. van Lieshout, both members of the Management Board, have also committed on a voluntary basis to a salary reduction to the capped remuneration level, on the understanding that existing contracts will be respected in parallel with the statutory transitional periods.

Partly in response to Parliamentary questions that were prompted by a press publication, the WNT Supervision Unit of the Ministry of the Interior initiated a further investigation. The Dutch House of Representatives was informed of the final conclusions. Minister Plasterk confirmed that the network company Alliander and its Management Board do not fall within the WNT. The network operator Liander is subject to the WNT.

The Supervisory Board understands the prevailing political and social views on remuneration. The Board finds the remuneration cap of 130% of a minister's remuneration an acceptable limit and expects this level of remuneration to be sufficient to maintain the quality of the company's management. This is of vital importance in the light of the radical changes that the company faces as a consequence of the energy transition. The Supervisory Board is promoting the introduction of a sector-wide remuneration code with different categories in order 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. The variable part of the income is determined each year.

At the beginning of the year, the Supervisory Board sets the objectives and the accompanying weightings for the variable remuneration. The specific objectives are determined annually in a scorecard and must be challenging, measurable and controllable. The set criteria for the short- and long-term variable remuneration are derived from the most important objectives used to manage the company. The short-term objectives are linked to the performance indicators as defined in the year plan and included in the corporate dashboard. The long-term objectives are related to Alliander's long-term interests as defined in the long-term business plan. In the case of some objectives (customer satisfaction and electricity outage duration), the scores are compared with those of other network operators in the Netherlands. Progress is monitored throughout the year. After the Supervisory Board has assessed the performance of the past year, it establishes the extent to which the members of the Management Board have achieved their objectives. Prior to determining the level of the variable remuneration, the Internal Audit Department verifies the realisation of the scorecard.

If less than the agreed minimum level is achieved for an objective on the scorecard, no variable remuneration whatsoever is paid out for that objective. If the agreed maximum level for an objective on the scorecard is exceeded, the score will be capped at the maximum agreed for that objective. Both the short- and the long-term variable remuneration of the Management Board members will never exceed 100% of the maximum percentage of 30% of the annual gross base salary, including holiday allowance. The entire variable remuneration is subject to a 'claw back clause'. This means that variable remuneration awarded on the basis of incorrect financial or other information may be clawed back. The Supervisory Board also has the discretionary power to adjust a variable remuneration component awarded in any prior reporting year if, in its opinion, this component would yield unfair or unreasonable results due to exceptional circumstances during the year under review.

The variable remuneration is paid out after the General Meeting of Shareholders has formally adopted the financial statements for the year for which the objectives were set.

Remuneration components

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

- a. annual gross base salary;
- b. short-term variable remuneration;
- c. long-term variable remuneration;
- d. pension benefits;
- e. social security charges and other benefits.

a. 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 in line with the periodic salary increases for employees, as laid down in the collective labour agreement for network companies.²

b. Short-term variable remuneration

The short-term variable remuneration (one year) is aimed at achieving objectives within the current year. The short-term variable remuneration is capped at 30% of the annual gross base salary. Of the short-term variable remuneration, 60% relates to social aspects.

It has been decided that the short-term variable remuneration will be paid out for the last time for the 2015 financial year. The partial incorporation of the short-term variable remuneration into the salary will start on 1 January 2017. 70% of the maximum short-term variable remuneration will be incorporated into the annual gross base salary. This forms part of the total remuneration and will be reduced on a voluntary basis.

c. Long-term variable remuneration

The long-term variable remuneration is aimed at achieving objectives over a three-year period. The scheme is also intended as a means of retaining the individuals concerned. The long-term variable remuneration is capped at 30% of the annual gross base salary. Of the long-term variable remuneration, 75% relates to social aspects.

The award of long-term variable remuneration was terminated on 1 January 2015 without a transitional arrangement, on the understanding that the 2013-2015 and 2014-2016 periods are the last periods for which the long-term variable remuneration will be awarded and paid out.

d. Pension benefits

The members of the Management Board 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. In accordance with current practice in the energy sector, pension entitlement is accrued on the annual gross base salary, and members of the Management Board pay an individual contribution to participate in the scheme.

Effective from 1 January 2015, the maximum pensionable salary is €100,000. This entails that no further pension is accrued over the part of the salary that exceeds €100,000. The Supervisory Board has decided to extend the application of Alliander's pension contribution release arrangement, as applicable to the employees of Alliander, to the members of the Management Board by incorporating this released pension contribution into the salary.

e. 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 allowance³ 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 chairman must approve any supervisory board memberships at listed or other companies, while other significant positions outside the company must be reported in writing to the chairman of 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 that are 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

Term of appointment

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

Notice period 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 at least one year's salary, based on the relevant provisions in the individual employment contracts⁴. 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 contract. Relevant examples include a change of control of the company or an irreconcilable difference of opinion on company policy.

Implementation of remuneration policy for the Management Board in 2015

a. Annual gross base salary

The Alliander employees covered by the collective labour agreement for network companies received a structural salary increase of 0.8% with effect from 1 November 2015 and a one-off increase of 0.7% (the latter increase is restricted to the income up to €100,000). The same arrangements applied to the members of the Management Board. In the 2015 calendar year, the base salary of Mr Molengraaf amounted to €250,922 including 8% holiday allowance. The base salary of Mr Van Lieshout over the same period amounted to €235,745 including 8% holiday allowance, and the base salary of Ms Thijssen amounted to €208,109 including 8% holiday allowance. The main reason for the increases in the base annual salaries for 2015 compared to the previous year is that, effective from 2015, it is no longer possible to accrue pension over the portion of the salary above €100,000. This part of the pension accrual has therefore been incorporated into the base salary effective from 2015.

b. Short-term variable remuneration

Compared to the short-term variable remuneration for 2014, the Key Performance Indicator (KPI) 'Realised energy savings' has been replaced with the KPI 'Realisation of planned smart meter offering'.

Objectives for and realisation of short-term variable remuneration 2015

	Weighting	Realised in 2015 *)
Financial objectives		
Net income after tax (NIAT)	20%	99%
Net operating expenditure (OPEX)	10%	110%
Progress on the 25 most important Asset Management Plan projects	10%	110%
Subtotal	40%	
Customer-related objectives		
Customer satisfaction in consumer market	10%	107%
Customer satisfaction in business market	10%	91%
Realisation of planned smart meter offering	10%	110%
Subtotal	30%	
CSR objectives		
Employees at a distance from the labour market	10%	103%
Employee survey	10%	93%
Women in leadership positions	10%	110%
Subtotal	30%	
Total	100%	
Realisation rate		100%

- The Supervisory Board has set bandwidths for the individual targets ranging from a minimum to a maximum percentage achievement. If the extent to which a target is achieved is below the minimum of the agreed bandwidth, a score of 0% applies for the target concerned. If the extent to which a target is achieved is beyond the maximum of the agreed bandwidth, a higher percentage applies, subject to a maximum of 110%. For the short-term variable remuneration, the overall (weighted average) score is limited to a maximum of 100%.

Based on the realisation of the objectives, the short-term variable remuneration for 2015 for Messrs Molengraaf and Van Lieshout was set at 100% of the maximum percentage of 30% of the annual gross base salary.

c. Long-term variable remuneration

The objectives for the 2013–2015 period remained unchanged compared to the objectives for 2012–2014.

Objectives for and realisation of long-term variable remuneration 2013–2015

	Weighting	Realised in 2015 *)
Return on invested capital (ROIC)	25%	100%
Frequency of accidents (LTIF)	25%	105%
Electricity outage duration compared to national average	25%	92%
Socially responsible procurement (SRP)	25%	93%
Total	100%	
Realisation rate		98%

- The Supervisory Board has set bandwidths for the individual targets ranging from a minimum to a maximum percentage achievement. If the extent to which a target is achieved is below the minimum of the agreed bandwidth, a score of 0% applies for the target concerned. If the extent to which a target is achieved is beyond the maximum of the agreed bandwidth, a higher percentage applies, subject to a maximum of 110%. For the short-term variable remuneration, the overall (weighted average) score is limited to a maximum of 100%.

Based on the realisation of the objectives, the long-term variable remuneration for 2013–2015 for Messrs Molengraaf and Van Lieshout was set at 98% of 30% of the annual gross base salary.

The Supervisory Board made no use of its discretionary power to adjust the short- and long-term term variable remuneration for 2015. The Supervisory Board also had no cause in 2015 to consider using its power to claw back variable remuneration paid in respect of previous years.

d. Pension benefits

Pension costs relate to payments of standard pension contributions, which are based on the annual gross pensionable salary. As contractually agreed, variable remuneration is not pensionable. The total pension contributions paid in the year under review for Mr Molengraaf, Mr Van Lieshout and Ms Thijssen were, respectively, €18,882, €18,465 and €17,617.

e. Social security charges and other benefits

In 2015, 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 allowance⁶ amounted to €25,180 for Mr Molengraaf, €24,896 for Mr Van Lieshout and €10,990 for Ms Thijssen.

1. The variable remuneration system is not applicable to Ms Thijssen.
2. This applies to Ms Thijssen insofar as the maximum WNT remuneration is not exceeded.
3. An expense allowance is not applicable to Ms Thijssen.
4. The maximum severance payment upon dismissal by the company for Ms Thijssen is €75,000.
5. In the total score of 98%, the score for the realisation of the 'Electricity outage duration compared to national average' objective is estimated at 92%, based on the latest information. This score is determined on the basis of the KEMA Report 'Betrouwbaarheid van elektriciteitsnetten in Nederland in 2015' that will be published by Netbeheer Nederland in March 2016. The Supervisory Board will adjust the score for this objective and the final total score – in conformity with the applicable calculation method – if the outcomes of this report require such an adjustment.
6. An expense allowance is not applicable to Ms Thijssen.

Remuneration policy for the Supervisory Board

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, which was set by the General Meeting of Shareholders in 2011, comprises a fixed annual gross amount for the chairman and a fixed annual amount for the other members, as well as additional fixed annual gross amounts for committee memberships within the Supervisory Board. The remunerations are adjusted in line with the 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 secured 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 network operators. The remuneration policy applicable to the Supervisory Board exceeds the maximum WNT limit. A four-year transitional period is applicable to existing arrangements. The Supervisory Board has opted to make use of this transitional period. Supervisory Board members appointed or reappointed after 1 January 2013 are subject to the WNT remuneration limits. Effective from 1 January 2015, the WNT limits the maximum remuneration of the Supervisory Board chairman 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 can be found in the notes to the consolidated financial statements.

WNT

The Executives' Pay (Standards) Act (Wet normering topinkomens - WNT) is applicable to the network operators Liander N.V. and Endinet B.V, which are required to report on the remuneration of current and former senior executives. In addition, the WNT requests transparency on the remuneration of current and former employees and severance payments that exceed the set limit in the reporting year. The separate annual reports of both network operators, which are to be published in the second quarter of 2016, will contain disclosures on the WNT requirements.



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Consolidated financial statements

Consolidated balance sheet

€ million	Note	2015	2014
Assets			
Non-current assets			
Property, plant and equipment	3	5,899	6,218
Intangible assets	4	280	322
Investments in associates and joint ventures	5	9	11
Available-for-sale financial assets	6	229	200
Other financial assets	7	42	43
Deferred tax assets	17	248	218
		6,707	7,012
Current assets			
Inventories	9	54	40
Trade and other receivables	10	238	258
Derivatives	8	-	2
Other financial assets	6, 7	25	184
Cash and cash equivalents	11	89	167
		406	651
Non-current assets held for sale	33	613	9
Total assets		7,726	7,672
Equity & liabilities			
Equity			
	12		
Share capital		684	684
Share premium		671	671
Subordinated perpetual bond		496	496
Revaluation reserve		53	42
Other reserves		1,548	1,363
Profit after tax		235	323
Total equity		3,687	3,579
Liabilities			
Non-current liabilities			
Interest-bearing debt	13	1,197	1,616
Finance lease liabilities	19	162	145
Deferred income	14	1,559	1,573
Provisions for employee benefits	15	49	49
Other provisions	16	3	1
		2,970	3,384
Short-term liabilities			
Trade and other payables	18	133	103
Tax liabilities		101	106
Interest-bearing debt	13	471	159
Derivatives	8	-	80
Provisions for employee benefits	15	53	67
Accruals		216	194
		974	709
Liabilities held for sale		95	-
Total liabilities		4,039	4,093
Equity and liabilities		7,726	7,672

Consolidated income statement

€ million	Note	2015	2014 ¹
Revenue	21	1.586	1.594
Other Income	22	94	135
Total income		1.680	1.729
Operating expenses			
Purchase costs and costs of subcontracted work	23	-400	-391
Employee benefit expenses	24	-444	-444
External personnel expenses	24	-125	-115
Other operating expenses	25	-208	-150
Total purchase costs, costs of subcontracted work and operating expenses		-1.177	-1.100
Depreciation and impairment of property, plant and equipment	26	-338	-315
Less: Own work capitalised		174	170
Total operating expenses		-1.341	-1.245
Operating profit (EBIT)		339	484
Finance income	27	54	50
Finance expense	28	-125	-143
Result from associates and joint ventures after tax	5	-4	-
Profit before tax		264	391
Tax	29	-67	-88
Profit after tax from continuing operations		197	303
Profit after tax from discontinued operations	33	38	20
Profit after tax		235	323

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

The profit after tax for 2015 is almost entirely attributable to the shareholders of Alliander N.V.

Consolidated statement of comprehensive income

The comprehensive income was as follows:

€ million	2015	2014
Profit after tax	235	323
Other elements of comprehensive income		
Items that will be reclassified subsequently to profit or loss		
Revaluation of available-for-sale financial assets	15	22
Movement in fair value cash flow hedges	-	-
Tax	-4	-4
Comprehensive income after tax	246	341

The profit after tax for 2015 is almost entirely attributable to the shareholders of Alliander N.V.

Consolidated cash flow statement

€ million	Note	2015	2014
Cash flow from operating activities	30		
Profit after tax		235	323
Adjustments for:			
- Finance income and expense	27, 28	71	93
- Tax	29	80	94
- Profit after tax from associates and joint ventures	5	4	-
- Depreciation and impairment less amortisation	22, 26	282	291
- Release provision CDS after tax	8	-49	-60
- Result divestiture shares KEMA after tax ¹	22	-	-45
Changes in working capital:			
- Inventories		-17	-3
- Trade and other receivables		6	24
- Trade and other payables and accruals		51	57
Total changes in working capital		40	78
Changes in deferred tax, provisions, derivatives and other		-26	-38
Cash flow from operations		637	736
Net interest paid		-65	-77
Net interest received		2	2
Corporate income tax paid (received)		-61	-38
Total		-124	-113
Cash flow from operating activities		513	623
Cash flow from investing activities	30		
Investments in intangible assets	4	-	-2
Investments in property, plant and equipment	3	-575	-570
Construction contributions received	14	85	80
Investments and divestments in financial assets (associates and joint ventures)		-2	82
Cash flow from investing activities		-492	-410
Cash flow from financing activities	30		
Redemption EMTN		-	-276
ECP financing issued (redemption)		-112	153
Long-term debt issued (redemption)		4	-5
(Redemption) loans granted		9	-7
Received (granted) current deposits		-	75
(Redemption) available-for-sale investments	6	141	-
Reimbursement subordinated perpetual bond	12	-16	-16
Dividend paid		-125	-125
Cash flow from financing activities		-99	-201
Net cash flow		-78	12
Cash and cash equivalents as at 1 January		167	155
Net cash flow		-78	12
Cash and cash equivalents as at 31 December		89	167

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

Reconciliation of net cash flow 2015

The cash flow statement for 2015 (and for 2014) includes the figures for Endinet Groep. A direct reconciliation between the figures in the cash flow statement and those in the balance sheet and the income statement is not possible, since Endinet Groep has not been included in the corresponding figures in the latter two statements. Analysed into continuing operations (Alliander) and discontinued operations (Endinet Groep), the cash flows were follows:

€ million	Continuing operations	Discontinued operations	Eliminations	Total
Cash flow from operating activities	477	36	-	513
Cash flow from investing activities	-470	-22	-	-492
Cash flow from financing activities	-99	-15	15	-99
Net cash flow	-92	-1	15	-78

Consolidated statement of changes in equity

€ million	Equity attributable to shareholders and other providers of equity							Total
	Share capital	Share premium	Subordinated perpetual bond	Hedge reserve	Revaluation reserve	Other reserves	Profit for the year	
As at 1 January 2014	684	671	496	-	24	1.212	288	3.375
Revaluation of available-for-sale financial assets	-	-	-	-	18	-	-	18
Profit after tax for 2014	-	-	-	-	-	-	323	323
Comprehensive income for 2014	-	-	-	-	18	-	323	341
Reimbursement subordinated perpetual bond after tax	-	-	-	-	-	-12	-	-12
Dividend for 2013	-	-	-	-	-	-	-125	-125
Profit appropriation for 2013	-	-	-	-	-	163	-163	-
As at 31 December 2014	684	671	496	-	42	1.363	323	3.579
Revaluation of available-for-sale financial assets	-	-	-	-	11	-	-	11
Profit after tax for 2015	-	-	-	-	-	-	235	235
Comprehensive income for 2015	-	-	-	-	11	-	235	246
Other ¹	-	-	-	-	-	-1	-	-1
Reimbursement subordinated perpetual bond after tax	-	-	-	-	-	-12	-	-12
Dividend for 2014	-	-	-	-	-	-	-125	-125
Profit appropriation for 2014	-	-	-	-	-	198	-198	-
As at 31 December 2015	684	671	496	-	53	1.548	235	3.687

1. Rounding differences.

Notes to the consolidated financial statements

Accounting policies

Accounting policies

Alliander N.V. is a public limited liability company, registered in Arnhem, the Netherlands. The 2015 financial statements were signed by the members of the Management Board and the members of the Supervisory Board on 22 February 2016. The Supervisory Board will submit the financial statements for adoption by the General Meeting of Shareholders on 7 April 2016.

The accounting policies are based on the assumption of a going concern. As permitted by Section 402, Part 9, Book 2, of the Netherlands Civil Code, the company income statement is presented in abridged form.

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 subsidiaries Liander and Endinet own and manage the regional gas and electricity networks in the provinces of Gelderland, Friesland, Noord-Holland and parts of Zuid-Holland, Flevoland and Noord-Brabant. 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. Liander 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, Hoom, Smart Connections, Mpare, 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. 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.

Sale of Endinet and purchase of networks in Friesland/Noordoostpolder

On 24 March 2015, Alliander and Enexis signed heads of agreement on the exchange of regional energy networks. The agreement laid down the terms and conditions of the exchange, including the precise extent of the networks to be exchanged, the specific activities involved and important agreements on the procedure to be followed.

The contract (SPA) to acquire parts of the Enexis networks in Friesland and the Noordoostpolder (Activabedrijf Enexis Friesland B.V. – AEF B.V.) with effect from 1 January 2016 and simultaneously to sell to Enexis the networks in the geographical areas of Eindhoven and Zuidoost-Brabant (Endinet Groep B.V.) was signed on 27 July. The transaction involved Alliander selling the shares of Endinet Groep B.V. to Enexis and buying the shares of AEF B.V. (networks in Friesland and the Noordoostpolder) from Enexis with an additional payment by Enexis of €365 million.

AEF has 51,000 electricity and 196,000 gas connections in Friesland and 28,000 electricity and 27,000 gas connections in the Noordoostpolder. The AEF networks lie at the heart of the area serviced by Liander and their acquisition will make for more efficient operations. The acquisition is 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 will be including the company in the Alliander consolidation with effect from that date. Enexis has had total control of Endinet Groep B.V. with effect from 1 January 2016 and Endinet Groep B.V. has ceased to be included in the Alliander consolidation with effect from that date.

For the financial statements as at 31 December 2015 this means that, in compliance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, the assets and liabilities of Endinet Groep B.V. have been classified in the balance sheet as assets and liabilities held for sale with effect from 24 March 2015 and Endinet's net profit has been presented in the income statement as profit after tax from discontinued operations. Likewise, in compliance with the held-for-sale classification (IFRS 5), depreciation ceased to be recognised on the Endinet Groep assets carried on Alliander's consolidated balance sheet with effect from 24 March 2015. All intercompany items between Alliander and Endinet were also eliminated prior to recognition of Endinet as 'held for sale' and 'discontinued operations'. The discontinued-operations classification means that Endinet Groep's net profit is presented with that description in the Alliander income statement. For comparison purposes, the same treatment has been applied to the figures for Alliander in 2014.

Since this is a transaction that took place on 1 January 2016 (an event after the balance sheet date) but one which predated the publication of the financial statements, the purchase of AEF B.V. and the sale of Endinet have been accounted for in the 2015 financial statements as events after the balance sheet date. The corresponding detailed disclosure required by IFRS 3 has been included in note [36]. The two transactions do not have any effect on the 2015 figures but will be accounted for in the 2016 reporting period.

Non-controlling interests

There is a third-party non-controlling interest in one of Alliander's activities. This concerns a 5% interest on the part of the Municipality of Nijmegen in Indigo B.V., a subsidiary of Alliander Duurzame Gebiedsontwikkeling, see note [12].

IFRS

IFRS

Alliander's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as at 31 December 2015, as adopted by the European Union (EU). 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 2015

The IASB and the IFRIC have issued new and/or amended standards and interpretations which are applicable to Alliander with effect from the 2015 financial year. The standards and interpretations below have been endorsed by the European Union.

IAS 19 (Amendments) Defined Benefit Plans, Employee Contributions concerns a simplification of the treatment of employee contributions and contributions from third parties relating to defined benefit plan pension contributions. Alliander has two defined benefit plans relating to subsidiaries in Germany, although these are not of material importance. There are no contributions to these plans from either employees or third parties.

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

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, the proposals mean 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. The impact as far as the regulated activities are concerned is expected to be limited; the impact in relation to activities in the unregulated domain is potentially substantial. In 2015, an implementation programme has been initiated to assess contracts, services and supplies in 2016 in terms of the new standard, to identify any changes in measurement and recognition and in required disclosures and to ascertain the impact this will have on the accounting and other systems.

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 hedge accounting in relation to financial instruments and therefore replaces the requirements of IAS 39 almost entirely. 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. Alliander has relatively modest portfolios of financial instruments, as a result of which the impact will be limited; it is expected that the amended impairment methodology will have the greatest impact for Alliander. Alliander will be initiating an implementation programme for IFRS 9 in 2016.

IFRS 16 Leases. The IASB published the new standard for leases on 13 January 2016. The implementation date is 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. The new standard does not affect the way in which the cross-border leases are accounted for, however. An implementation programme to prepare for this change will begin in 2016.

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' part 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

Having due regard to the 'held for sale' status of Endinet, there were no new consolidations or deconsolidations in 2015.

In 2014, CDMA Utilities B.V. was deconsolidated and replaced by the joint operation CDMA Utilities B.V. For more comprehensive details, see note [5].

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].

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.

If certain events or changes in circumstances necessitate such action, an impairment test is performed in order to 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.

In 2015, the number of cash-generating units involved in the activities in Germany was increased from 2 to 3. Up to year-end 2014, the activities in Germany involved the cash-generating units of Network Operation and Public Lighting/Traffic Control Systems. In view of the expansion of activities in the field of new markets, a separate cash-generating unit for the latter operations was recognised in 2015. There were no changes in the cash-generating units in 2014.

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

There were no changes in estimates of expected useful lives in either 2015 or 2014.

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 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 hedges: 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 hedges: 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, energy-related installations and office space. 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.

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. Given the usually short period before such accounts are settled, their fair value and amortised cost are generally equal to their 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 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 paid during the financial year are accounted for as pension costs in the financial statements. Where there is a contractual 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, conditional bonuses 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, as 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

2015

In December 2014, Alliander Netz Heinsberg GmbH reached agreement with EWV Energie- und Wasserversorgung GmbH on the purchase of the gas distribution network in the municipality of Waldfeucht with effect from 1 January 2015. The relevant concession was won at the beginning of 2014. The purchase price of the gas network amounted to €3 million and was paid at the start of January 2015. The concession runs for 20 years (up to 8 February 2035).

2014

In December 2013, Alliander Netz Heinsberg GmbH reached agreement with EWV Energie- und Wasserversorgung GmbH on the purchase of the gas distribution network in the municipality of Heinsberg with effect from 1 January 2014. The relevant concession was acquired at the end of 2012. The purchase price for the network, which was paid at the beginning of January 2014, was €10 million. The concession runs for 20 years (up to 31 December 2032).

The allocation of the purchase price is disclosed below:

€ million	Fair value as at 1 January 2015	Fair value as at 1 January 2014
Property, plant and equipment	3	9
Total non-current assets	3	9
Total liabilities	-	-
Net assets acquired	3	9
Purchase price		
Cash	3	10
Less: net assets acquired	-3	-9
Goodwill	-	1

Note

The total purchase price on 1 January 2015 and 1 January 2014 was €3 million and €10 million, respectively. These were cash transactions in both cases. The acquisitions are included in the Other segment.

The net assets acquired (€3 million in 2015 and €9 million in 2014) relate to distribution networks, connections and meters in the case of both transactions.

Goodwill

The goodwill of €1 million in connection with the gas network in Heinsberg relates to the expected synergistic gains.

Other

The total costs associated with the acquisition of the gas networks in Waldfeucht (2015) and Heinsberg (2014) amounted to €0.3 million. These costs were expensed in the years 2012–2014. The networks generate annual revenue of approximately €2 million. The net profit over that period amounted to €0.5 million annually.

Note 2 Segment information

Segments

Alliander distinguishes the following reporting segments:

- Network operator Liander;
- Network company Endinet;
- Other.

This segmentation reflects the internal reporting structure, specifically the internal consolidated and segmented monthly reports, the annual plan and the business plan. Although Endinet had been sold off, with the transfer taking place on 1 January 2016 (see note [36] among other disclosures), the company continued to be included in Alliander's internal reporting structure up to 31 December 2015.

Network operator Liander, accounting for more than 80% of the revenue, forms the largest company within the Alliander group and is responsible for providing gas and electricity connections and for transporting gas and electricity in Gelderland and parts of Noord-Holland, Flevoland, Friesland and Zuid-Holland.

Network company Endinet Groep B.V., including network operator Endinet B.V., has largely similar activities to those of Liander, but serving the Eindhoven and Oost-Brabant distribution area. Although, on the basis of quantitative criteria, Endinet does not qualify as a separate reporting segment, the Management Board has decided that Endinet should nevertheless report as a separate segment for the following reasons:

- agreement has been made with the former shareholders of Endinet determining that Endinet B.V. should continue to exist as a separate network operator within Alliander in any case until mid-2015;
- Endinet B.V. will continue to report separately as an independent network operator to such authorities as the Authority for Consumers & Markets (ACM);
- a different geographical location.

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 the Shared Services and IT, which perform activities on behalf of Liander and Endinet among other units. 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.

The primary segmentation analysis is as follows, including reconciliation with the reported figures.

Note

General

The external revenue of Liander and Endinet mainly comprises income from energy transport, connection and metering services. In the Other segment, external revenue mainly derives from the services provided by Liandon 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 and Endinet. These internal supplies are made at cost.

Primary Segmentation

€ million Income statement	Network operator Liander		Network company Endinet		Other		Eliminations		Total		Reclassification to reported, incidental items and IFRS 5		Reported	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Operating income														
External revenue	1,567	1,586	101	108	112	103	-	-	1,780	1,797	-100	-68	1,680	1,729
Internal revenue	6	5	-	-	329	308	-337	-313	-	-	-	-	-	-
Total revenue	1,573	1,591	101	108	441	411	-337	-313	1,780	1,797	-100	-68	1,680	1,729
Operating expenses														
Purchase costs and costs of subcontracted work	704	665	14	15	180	145	-77	-67	821	758	-421	-367	400	391
Operating expenses	554	564	36	39	404	377	-259	-246	735	734	42	-25	777	709
Depreciation and impairments	268	250	39	39	70	65	-	-	377	354	-39	-39	338	315
Own work capitalised	-308	-304	-6	-6	-163	-137	-	-	-477	-447	303	277	-174	-170
Total operating expenses	1,218	1,175	83	87	491	450	-336	-313	1,456	1,399	-115	-154	1,341	1,245
Operating profit	355	416	18	21	-50	-39	1	-	324	398	15	86	339	484
Net finance income/expenses	-103	-105	-9	-8	45	39	1	-	-66	-74	-5	-19	-71	-93
Share in results of associates and joint ventures after tax	1	1	-	-	-4	-1	-1	-	-4	-	-	-	-4	-
Tax	-62	-78	-2	-3	-	-4	-1	1	-65	-84	-2	-4	-67	-88
Profit after tax	191	234	7	10	-9	-5	-	1	189	240	8	63	197	303
Segment assets and liabilities														
Total assets	6,448	6,415	508	514	2,609	2,619	-1,907	-1,876	7,658	7,672	68	-	7,726	7,672
Non-consolidated investments in associates	-	-	-	-	8	9	-	-	8	9	-	-	8	9
Non-consolidated investments in joint ventures	1	2	-	-	-	-	-	-	1	2	-	-	1	2
Liabilities (non-current and current)	4,588	4,507	232	245	1,993	2,096	-2,821	-2,755	3,992	4,093	48	-	4,040	4,093
Other segment items														
Investments in property, plant and equipment	429	407	29	28	117	135	-	-	575	570	-	-	575	570
Number of permanent staff at end of year	3,082	3,179	265	293	2,477	2,405	-	-	5,824	5,877	-265	-293	5,559	5,584

The profit after tax for 2015, like that for 2014, is almost entirely attributable to the shareholders of Alliander N.V.

Reclassification to reported and incidental items

The reclassification affecting reported and incidental items concerns the reconciliation of the periodical management reports with the published financial reports. For external reporting, the amount of capitalised own production of €303 million (2014: €277 million) included in purchase costs and costs of raw materials and consumables is eliminated. In the reported figures, Endinet has been classified as profit from discontinued operations. As a consequence, an adjustment has been applied for Endinet in the reclassification to reported and incidental items.

The incidental items are not included in the periodical management reports either but are reported separately. For the purposes of reconciliation with the external reporting (column headed 'Reported'), the incidental items should be included. Disclosures relating to the incidental items can be found in 'Shareholders and investors' section of the annual report.

Also, as required by IFRS 5, only the consolidated net profit of Endinet has been presented separately in Alliander's income statement, as profit from discontinued operations. In the internal reporting, however, the separate income statement items for the full-year have been included, without cessation of depreciation from 24 March 2015 onwards. The difference between this and Alliander's reported income statement, in which Endinet is not recognised, has been accounted for in the column headed 'Reclassification to reported and incidental items and IFRS 5'.

Segment assets and liabilities

The amounts in the eliminations column against total assets mainly concern the eliminations of the investments in subsidiaries Liander and Endinet. 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	
	2015	2014	2015	2014	2015	2014	2015	2014
The Netherlands	1.643	1.696	5.850	6.178	279	321	9	11
Rest of the world	37	33	49	40	1	1	-	-
Total	1.680	1.729	5.899	6.218	280	322	9	11

'Rest of the world' relates entirely to the activities in Germany 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 2014					
Historical cost	207	8.776	1.364	226	10.573
Accumulated depreciation and impairments	-101	-3.632	-828	-	-4.561
Carrying amount as at 1 January 2014	106	5.144	536	226	6.012
Movements 2014					
Investments	1	33	76	460	570
Divestments	-5	-12	-7	-5	-29
Depreciation	-5	-235	-90	-	-330
Reversal impairments	-	-	1	-	1
Deconsolidation CDMA	-	-	-16	-	-16
Investment in joint operation CDMA	-	-	9	-	9
Reclassifications and other changes	24	332	7	-362	1
Total	15	118	-20	93	206
As at 31 December 2014					
Historical cost	247	9.447	1.383	319	11.396
Accumulated depreciation and impairments	-126	-4.185	-867	-	-5.178
Carrying amount as at 31 December 2014	121	5.262	516	319	6.218
Movements 2015					
Investments	3	338	97	113	551
Divestments	-2	-14	-13	-	-29
Depreciation	-6	-219	-92	-	-317
Transfer from assets held for sale	-	-	9	-	9
Reclassifications and other changes	51	82	100	-239	-6
Reclassifications to assets held for sale	-16	-476	-22	-13	-527
Total	30	-289	79	-139	-319
As at 31 December 2015					
Historical cost	234	9.201	1.492	180	11.107
Accumulated depreciation and impairments	-83	-4.228	-897	-	-5.208
Carrying amount as at 31 December 2015	151	4.973	595	180	5.899

Investment

Capital expenditure on property, plant and equipment totalled €551 million (2014: €570 million). This includes the acquired assets, as disclosed in note [1] (2015 and 2014).

New consolidations

There were no acquisitions in 2015.

Divestment

Divestment in 2015 related to decommissioning of network assets and other plant and equipment and sales of buildings and land.

Reclassification and other movements

In 2015, this includes the transfer of the capitalised cost of the building in Eindhoven to Endinet Groep B.V. (€3 million).

Reclassification to assets held for sale

For details of this item, reference is made to the accounting policies on page [111]. The amounts disclosed in the statement of movements relate to the carrying amounts as at 24 March 2015.

Impairment

Impairment tests were carried out at year-end for the various assets concerned. In almost all cases, the asset's value in use was taken as the basis for determining the recoverable amount. The present value of projected future cash flows relating to the assets, based on the most recent business plans, was calculated and compared with the carrying amount. For calculating the value in use, Alliander uses discount rates that take into account the risk profile of the assets. In the 2015 reporting period, Alliander used a pre-tax discount rate of 5.6% for the years up to and including 2016 and 4.5% from 2017 onwards, which in both cases is in line with the official regulatory discount rate in the Netherlands. 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 7.0% for the years up to and including 2018 and 5.7% for later years (2014: 6.0%). For the activities in the unregulated domain in 2015, a discount rate after tax of 7.3% (2014: 7.7%) has been used. For further disclosures, see note [4].

There were no impairment losses in 2015. The reversal of the impairment losses recognised in 2014, amounting to €1 million, relates to a heat transport pipeline.

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 2014. On 2 January 2015, the partial transaction that the former ENW entered into in 1998 for the gas networks in Amsterdam ended on the contractual option date. At the initiative of the investor concerned, the remaining three partial transactions entered into by ENW (gas networks in Kennemerland, Kop Noord-Holland and Midden Noord-Holland) were subsequently terminated prematurely, on 14 April 2015. On the same date, the final payment of the amounts owed in connection with the partial transaction ended on 2 January 2015 was also made earlier than scheduled. The termination of the transactions effected in 2015 means that the former ENW gas distribution networks in Noord-Holland are once again entirely unencumbered assets of Liander. The ENW transaction was the last CBL in connection with which parts of the networks were mortgaged in favour of a US investor and the banks involved.

The termination of the ENW transactions resulted in a reduction of the total net carrying amount of the assets included in the cross-border leases (€0.6 billion reduction), in the related investments in securities (\$0.6 billion reduction) and in the strip risk (\$3 million reduction). These figures relate to the reported amounts as at year-end 2014. The ENW leases were the final transactions for which Alliander was obliged to issue letters of credit covering the strip risk (year-end 2014: \$5 million).

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 2015 was approximately €0.5 billion (2014: €1.1 billion). At the end of 2015, a total of \$2.6 billion (2014: \$3.2 milliard) was held on deposit with several financial institutions or invested in securities in connection with these transactions.

Since no powers of disposal exist over the majority of the assets concerned and associated liabilities, they are not regarded as assets and liabilities of Alliander and the respective amounts are not recognised in the consolidated financial statements of Alliander. The 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 2015, 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 \$180 million (2014: \$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 Oost 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 2015 was €102 million (2014: €103 million).

Note 4 Intangible assets

Intangible assets

€ million	Goodwill	Other intangible assets	Total
As at 1 January 2014			
Historical cost	500	12	512
Impairment	-187	-2	-189
Carrying amount as at 1 January 2014	313	10	323
Movements 2014			
Investments	1	1	2
Deconsolidation CDMA	-	-5	-5
Investments in joint operations CDMA	-	3	3
Depreciation	-	-1	-1
Total	1	-2	-1
As at 31 December 2014			
Historical cost	501	11	512
Accumulated amortisation and impairments	-187	-3	-190
Carrying amount as at 31 December 2014	314	8	322
Movements 2015			
Investments	-	-	-
Depreciation	-	-1	-1
Reclassification to assets held for sale	-36	-5	-41
Total	-36	-6	-42
As at 31 December 2015			
Historical cost	465	4	469
Accumulated amortisation and impairments	-187	-2	-189
Carrying amount as at 31 December 2015	278	2	280

There were no investments in 2015. The goodwill allocated to Endinet has been classified with assets held for sale.

The investment in goodwill in 2014 relates to the acquisition of the gas distribution network in Heinsberg. In December 2013, Alliander AG reached agreement with EWV Energie- und Wasserversorgung GmbH on the purchase of the gas distribution network in the municipality of Heinsberg with effect from 1 January 2014. The related concession was acquired in 2012. The purchase price for the network, which was paid at the beginning of January 2014, was €10 million. The transaction included €1 million in respect of goodwill; this has been allocated to the Other segment.

For disclosures regarding the movements in 2014 relating to CDMA, see note [5].

Goodwill allocation by segment

€ million	2015	2014
Liander	277	277
Endinet	-	36
Other	1	1
Total	278	314

Of the total amount of goodwill allocated to Liander, €209 million relates to electricity and gas networks and dates from the contribution of the networks when n.v. Nuon was created in 1999. The remaining €68 million is made up of €61 million relating to the acquisition of Endinet in 2010 and €7 million relating to Stam. The goodwill allocated to Endinet (€36 million) has been reclassified to assets held for sale. The goodwill allocated to the Other segment relates to network activities in Germany.

At year-end 2015, 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 2015 reporting period, Liander used a pre-tax discount rate of 5.6% for the years up to and including 2016 and 4.5% from 2017 onwards, which in both cases is in line with the official regulatory discount rate. 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 7.0% for the years up to and including 2018 and 5.7% for later years (2014: 6.0%). Otherwise the underlying assumptions were the same as for Liander. The result of the impairment test on the German networks showed that there was very little difference between the value in use and the carrying amount. Like the network activities in the Netherlands, the German network activities are also regulated. Changes in costs, discount rates and investments are reflected in the tariffs. Changes in estimates and assumptions therefore have a limited impact on the results of the impairment calculation. There were no impairment losses in 2015 or 2014.

Note 5 Investments in associates and joint ventures

Investments in associates and joint ventures

€ million	Associates		Joint ventures		Total	
	2015	2014	2015	2014	2015	2014
Carrying amount as at 1 January	9	31	2	1	11	32
Movements						
Investments	3	3	-	-	3	3
Share in results	-5	-1	1	1	-4	-
Divestments	-	-23	-	-	-	-23
Impairments	-1	-	-	-	-1	-
Currency translation differences and other movements	2	-1	-2	-	-	-1
Total	-1	-22	-1	1	-2	-21
Carrying amount as at 31 December	8	9	1	2	9	11

Impairment relates to an associate in which there is a non-controlling interest and the termination of the interest held by Alliander Participaties B.V. in Green-A-Tec B.V. on 4 December 2015. The divestments in the preceding year relate to the sale of the non-controlling interest in KEMA to DNV GL Group.

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 ventures in article 'Significant subsidiaries and participations'. 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		Total result	
	2015	2014	2015	2014	2015	2014
Share in						
Profit or loss from continued activities	-5	-1	1	1	-4	-
Profit or loss from discontinued activities	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-5	-1	1	1	-4	-

Alliander has concluded arrangements with associates and joint ventures for granting finance and credit facilities totalling €32 million as at year-end 2015 (2014: €28 million). Under these facilities, an amount of €24 million was drawn down as at 31 December 2015 (2014: €22 million). The arrangements include convertible loans of €9 million (2014: €5 million).

Alliander increased the capital invested in existing associates/joint ventures (Locamation, Plugwise and The New Motion) by €3 million.

The finance also extends to current-account liabilities of €16 million as at year-end 2015 (2014: €27 million) for a current account facility in this context. The loans and accrued interest and repayments in the case of one of the entities concerned have been written off. The loan granted to this company in 2014 is secured by a pledge valued at €1.6 million. This pledge (legal liability) does not lapse because the invested loan and share capital has been written down to nil because of impairment.

Note on CDMA joint operation

CDMA balance sheet

€ million	Balance sheet as at 6 October 2014	Deconsolidation as at 7 October 2014	Investment in joint operation as at 7 October 2014	Investment in joint operation as at 31 December 2014
Assets				
Non-current assets				
Property, plant and equipment	16	-16	10	19
Intangible assets	5	-5	3	3
Total non-current assets	21	-21	13	22
Current assets				
	9	-9	5	2
Total assets	30	-30	18	24
Equity and liabilities				
Total equity	9	-9	6	6
Non-current liabilities	-	-	-	11
Short-term liabilities	21	-21	12	7
Total equity and liabilities	30	-30	18	24

CDMA income statement

€ million	1 January - 6 October 2014	7 October 2014 - 31 December 2014	Total 2014
Operating income	7	1	8
Operating expenses	-6	-1	-7
Operating profit	1	-	1
Financial income and expenses	-1	-	-1
Profit before tax	-	-	-
Tax	-	-	-
Profit after tax	-	-	-

CDMA Utilities B.V. was until 6 October 2014 a wholly-owned subsidiary of Alliander. On 7 October 2014, Eneco acquired a 50% interest in the voting shares and a 40.72% interest in the profit shares, for a payment of €4 million. In the period up to 6 October 2014, CDMA was financed by Alliander via a current account facility. Upon Eneco's involvement as shareholder, the current-account finance was replaced by shareholder loans of €11 million from Alliander and €8 million from Eneco. The loans have been contracted for a period of three years at an interest rate of 1.4%, based on the mid-swap rate, Alliander's spread and a risk markup.

The terms of the shareholder agreement mean that CDMA is classified as a joint operation. The agreement also stipulates that the two shareholders are separately accountable for the loans which they have each granted. There are no provisions governing the other balance sheet items. As far as the Alliander N.V. consolidation is concerned, this means that, with effect from 7 October 2014, Alliander recognises 100% of the shareholder loan which it has granted in the consolidation, ignores the Eneco loan in its entirety and recognises all other balance sheet and income statement items in proportion to the profit share interest (59.28%). As already mentioned, up to 6 October 2014, CDMA was included 100% in the Alliander consolidation.

There were no changes in the contractual agreements in 2015 and the risk profile is the same as in 2014.

Note 6 Available-for-sale financial assets

Available-for-sale financial assets

€ million	
Carrying amount as at 1 January 2014	297
Movements 2014	
Currency translation differences	37
Fair value mutations	25
Total	62
Carrying amount as at 31 December 2014	359
Movements 2015	
Currency translation differences	28
Fair value mutations	15
Termination of financial asset on maturity	-173
Total	-130
Carrying amount as at 31 December 2015	229
Non-current portion of held-for-sale financial assets	229
Current portion of held-for-sale financial assets	-

Available-for-sale financial assets as at year-end 2015 comprises investments in a debt instrument issued by a large financial institution which serves to cover obligations arising from two cross-border lease contracts (2014: €200 million). The carrying amount of the related lease obligations was €162 million at year-end 2015 (2014: €144 million).

The current portion of the available-for-sale assets as at year-end 2014 (€159 million) was settled on maturity on 22 June 2015 and the relevant amounts were received by Alliander from the banks concerned.

Note 7 Other financial assets (including current portion)

Other financial assets

€ million	Loans, receivables and other
Carrying amount as at 1 January 2014	125
Effective interest rate 2014	1%
Movements 2014	
Loans granted	539
Loans and interest repaid	-596
Total	-57
Carrying amount as at 31 December 2014	68
Effective interest rate 2015	1%
Movements 2015	
Loans granted	184
Loans and interest repaid	-182
Writedown on loan to associate	-3
Total	-1
Carrying amount as at 31 December 2015	67
Non-current portion of other financial assets	42
Current portion of other financial assets	25

At the end of 2015, 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. The loans granted and repaid in 2014 and 2015 were mainly in the form of short-term deposits. As in the preceding year, €25 million of the receivables as at year-end 2015 was in the form of short-term deposits. In both 2015 and 2014, the item also included a long-term receivable of €17 million from the City of Amsterdam relating to the Spaklerweg site.

Note 8 Derivatives

Derivatives

€ million	Current assets		Non-current assets		Current liabilities		Non-current liabilities	
	2015	2014	2015	2014	2015	2014	2015	2014
Trading derivatives								
Other derivatives	-	-	-	-	-	62	-	-
Total	-	-	-	-	-	62	-	-
Cash flow hedges								
Foreign exchange contracts	-	2	-	-	-	18	-	-
Total	-	2	-	-	-	18	-	-
Carrying amount as at 31 December	-	2	-	-	-	80	-	-

Derivatives are measured at fair value. As at year-end 2014, derivatives held for trading included a credit default swap (CDS) in current liabilities, forming part of the investments in financial assets.

The credit default swap derivative instrument has been part of two cross-border lease contracts since 2005. The CDS is a product which insures the credit risk on an underlying portfolio made up of almost 100 reference bonds. The instrument has a maturity of 10 years (maturing on 22 June 2015), Alliander's maximum risk exposure was \$171 million. An impairment loss on the CDS was recognised in 2008 and, in view of the then prospects for the product, it was decided at the time to recognise a provision in respect of the maximum risk exposure of \$171 million. The greater part of this provision came from the fair value of the CDS (which was negative), the remainder being made up of an additional provision up to the amount of the maximum risk – see note [16]. This approach was maintained up to year-end 2013, based on the expected risks.

In December 2014, the fair value of the CDS was \$18 million (€15 million) and the additional provision amounted to \$153 million (€127 million) on the basis of this methodology. As at year-end 2014, the remaining term to maturity of the CDS was only six months and the management of Alliander concluded at the time that the default risk among the companies in the CDS portfolio (between then and the expiration date of the instrument) had diminished to such an extent that the maximum risk relating to the entire product was no longer expected to materialise. Under the criteria stipulated in IAS 37, this meant that the entire amount of the provision of \$153 million (€127 million) in 2014 should be released to income and set against operating expenses.

The fair value based on an external valuation in December 2014 amounted to \$18 million (€15 million). However, Alliander's management took the view that this fair value did not sufficiently reflect the remaining risks attendant upon the product. Based on an internal risk analysis, a valuation of \$75 million (€62 million) as at year-end 2014 was arrived at. The difference, of \$57 million (€47 million), was recognised in operating expenses in 2014. The net effect is that with respect to the CDS in 2014 a release of €80 million was recognised and set against the operating expenses.

The CDS matured on 23 June 2015, with the simultaneous expiry of all the risks attendant on this instrument. The carrying amount of the CDS, of €66 million, was released to the income statement for 2015 and set against operating expenses on the same date.

Finance was raised in 2015 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 carrying amount of this short-term derivative as at year-end 2015 amounted to €0.3 million (2014: €2 million). The current liabilities as at year-end 2014, amounting to €18 million, related to three FX swaps hedging the currency risk on the current portion of the available-for-sale financial assets.

Note 9 Inventories

Inventories

€ million	2015	2014
Raw materials and consumables	44	33
Finished goods	10	7
Carrying amount as at 31 December	54	40

The impairment of inventories in 2015 totalled €5 million (2014: almost nil).

Note 10 Trade and other receivables

Trade and other receivables

€ million	2015	2014
Trade receivables	74	70
Impairments of trade receivables	-9	-10
Trade receivables net	65	60
Other receivables	19	22
Accrued income and prepayments	154	176
Carrying amount as at 31 December	238	258

At the end of 2015, impairment of trade receivables totalled €9 million (2014: €10 million). The impairment loss on trade receivables recognised in the income statement in 2015 amounted to €1 million (2014: €2 million). For further information, see the credit risk section of note [34].

Note 11 Cash and cash equivalents

Cash and cash equivalents

€ million	2015	2014
Cash held at banks	15	10
Deposits	74	157
Carrying amount as at 31 December	89	167

The effective interest rate on cash and cash equivalents ranged from -0.20% to 0.17% (2014: 0.00% to 0.27%). Cash and cash equivalents are held almost entirely in euros. In 2015, there were no amounts of cash and deposits which were not at the unrestricted disposal of Alliander (2014: 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 2015, 136,794,964 shares were in issue (2014: 136,794,964).

Subordinated perpetual bond

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.

A number of the terms and conditions of the associated loan contract were amended in 2015. This does not affect the classification as equity.

Hedge reserve

Alliander uses cash flow hedging, involving both interest rate swaps and currency hedges. Further information can be found in the notes on risks and financial instruments.

The negative carrying amount of the hedge reserve as at year-end 2015, after deduction of deferred tax, was €0.479 million and relates to an interest rate hedge on the EMTN issue in 2004. This cash flow hedge terminates on maturity of the Euro Medium Term Notes concerned.

Revaluation reserve

The revaluation reserve is connected with the sale of the available-for-sale financial assets. The increase of €11 million in the revaluation reserve in 2015 is accounted for by the increasing value of the available-for-sale financial assets.

Other

The other reserve include an amount of €0.4 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%) established with the object of constructing a heat transmission pipeline from the regional waste-to-energy plant Afvalverwerking Regio Nijmegen (ARN) to supply the district heating network to be built by Nuon Energy. As at the end of the reporting period, shareholders' equity of Indigo BV amounted to €4.8 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. However, the amount of this non-controlling interest (€0.2 million), means that it is not visibly accounted for on the face of the balance sheet as at year-end .

Note 13 Interest-bearing debt

Interest-bearing debt

€ million	2015	2014
Carrying amount as at 1 January	1.775	1.895
Movements		
New loans	481	157
Loans repaid	-590	-284
Currency translation differences and other movements	2	7
Total	-107	-120
Carrying amount as at 31 December	1.668	1.775

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	
	2015	2014	2015	2014	2015	2014
Subordinated loans	8,6%	8,6%	5	5	82	90
Private and green loans	2,1%	2,9%	20	1	13	20
Euro Medium Term Notes	3,7%	3,9%	400	-	1.095	1.494
Euro Commercial Paper	0,4%	0,6%	46	153	-	-
Other	0,0%	0,0%	-	-	7	12
Carrying amount as at 31 December			471	159	1.197	1.616

Short-term interest-bearing debt, amounting to €471 million as at year-end 2015 (2014: €159 million), is made up of the current portion of the long-term debt, specifically Euro Medium Term Notes and the Euro Commercial Paper. As at year-end 2015, a carrying amount of €1,495 million (face value €1,500 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 2015, €46 million in short-term finance had been raised under the ECP programme (2014: €153 million).

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	2015	2014
Less than 1 year	471	159
Between 1 and 2 years	6	424
Between 2 and 3 years	6	5
Between 3 and 4 years	306	6
Between 4 and 5 years	7	306
Over 5 years	872	875
Carrying amount as at 31 December	1.668	1.775

Note 14 Deferred income

Deferred income

€ million	2015	2014
Carrying amount as at 1 January	1.572	1.555
Contributions received	85	80
Amortisation recognised as income	-64	-63
Reclassification to liabilities held for sale	-34	-
Carrying amount as at 31 December	1.559	1.572

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). The reclassification of liabilities held for sale relates to the carrying amount as at 24 March 2015.

Note 15 Provisions for employee benefits

Provisions for employee benefits

€ million	Current portion		Non-current portion		Total	
	2015	2014	2015	2014	2015	2014
Long-term employee benefits						
Post-employment benefits	-	1	1	1	1	2
Other long-term employee benefits	10	12	41	41	51	53
Termination/reorganisation benefits	11	13	7	7	18	20
Total	21	26	49	49	70	75
Short-term employee benefits						
Short-term employee benefits	32	41	-	-	32	41
Carrying amount as at 31 December	53	67	49	49	102	116

Post-employment benefits

Alliander has various pension and similar plans for its current and former employees. The majority of the pension liabilities are insured with ABP. In addition to this main pension plan, Alliander has other defined benefit and defined contribution plans that are not significant in size. The ABP pension scheme is classed as a multi-employer defined benefit plan. A proportionate part of the gross obligation, plan assets and costs associated with the plan should be recognised in Alliander's financial statements. However, as Alliander does not have access to the required information, the pension plan is treated as a defined contribution plan. 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, an asset or liability arising from the agreement is recognised in the balance sheet. The resulting gains or losses are recognised in the income statement. The pension plan administered by ABP has none of the above features. As a result, no asset or liability has been recognised in the balance sheet. The same applies to the pensions administered by BPF Bouw and Pensioenfondsvoor Metaal en Techniek.

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 2015 was 98.7%. The pension contribution rate in 2015 was 19.6% of pensionable salaries. The pension contribution rate for 2016 is 17.8%. This lower contribution rate is connected with the switch from wage indexation to price indexation and the fact that a one-off component of 0.9% is no longer included in the 2015 contribution rate. ABP is expected to implement a surcharge of 1 percentage point on the contribution rate with effect from 1 April 2016. This surcharge is necessary because ABP's financial position as at 31 December 2015 was not adequate.

Alliander's relative share in the ABP pension scheme based on numbers of participants is approximately 0.5%. The pension contributions payable in 2016 for the multi-employer plans are expected to amount to €54 million.

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 IAS 19. This means that, with effect from 2013, actuarial gains and losses and remeasurements are recognised directly. Because of the small amounts involved, however, this is not visible in the consolidated financial statements.

Post-employment benefits essentially concern the medical benefits scheme for retired employees. This scheme has not been transferred to an external insurance company or pension fund. The post-employment benefits provision totalled €1 million at the end of 2015 (2014: €2 million). The provision for post-employment benefits was made up as follows:

Post-employment benefits

€ million	Current portion		Non-current portion		Total	
	2015	2014	2015	2014	2015	2014
Liability for pensions and post-employment healthcare insurance	-	1	1	1	1	2
Actuarial value of obligations as at 31 December	-	1	1	1	1	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;
- 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;
- reduction of working hours of older employees; in the light of legislation on early retirement, a transitional scheme was agreed in the 2005 Collective Labour Agreement under which older employees could reduce their working hours in the future. The table below shows the composition of other long-term employee benefits.

Other long-term employee benefits

€ million	Current Portion		Non-current portion		Total	
	2015	2014	2015	2014	2015	2014
Long-service benefits	3	2	30	31	33	33
Long-term sickness leave and disability benefits	4	5	8	5	12	10
Unemployment benefits	2	2	2	2	4	4
Reduction of older employees' working hours	-	2	-	1	-	3
Other	1	1	1	2	2	3
Carrying amount as at 31 December	10	12	41	41	51	53

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 2015, an amount of €19 million was added to the reorganisation provision (2014: €21 million). The provision for termination payments/reorganisations totalled €18 million at the end of 2015 (2014: €20 million).

Movements in provisions for long-term employee benefits

The held-for-sale classification means that Endinet's liabilities as at year-end 2015 carried in Alliander's consolidated balance sheet have been reclassified to liabilities held for sale.

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 2014	4	51	22	77
Movements 2014				
Released	-1	-3	-12	-16
Added	-	10	21	31
Interest expenses	-	1	-	1
Benefits paid	-2	-5	-11	-18
Total	-3	3	-2	-2
Carrying amount as at 31 December 2014	1	54	20	75
Movements 2015				
Released	-	-2	-7	-9
Added	-	9	19	28
Interest expenses	-	1	-	1
Benefits paid	-	-10	-14	-24
Total	-	-2	-2	-4
Reclassification to liabilities held for sale	-	-1	-	-1
Carrying amount as at 31 December 2015	1	51	18	70

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

Assumptions

	2015	2014
Mortality tables	generation 2010-2060 layer 2015	generation 2010-2060 layer 2014
Discount rates	0.05%-2.36%	0.44%-2.29%
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 were €32 million at the end of 2015 (2014: €41 million) and 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.

Note 16 Other provisions

Other provisions

€ million	Environmental restoration	Other provisions	Total
Carrying amount as at 1 January 2014	2	122	124
Movements 2014			
Added	-	2	2
Utilised	-1	-4	-5
Released	-1	-127	-128
Currency translation differences and other movements	-	8	8
Total	-2	-121	-123
Carrying amount as at 31 December 2014	-	1	1
Movements 2015			
Added	-	3	3
Utilised	-	-1	-1
Total	-	2	2
Carrying amount as at 31 December 2015	-	3	3

The other provisions as at year-end 2015 amounted to €3 million and related to loss-making contracts among other things. For further details on the amount of €127 million released in 2014, reference is made to note [8].

Note 17 Deferred tax

The deferred tax item is made up as follows:

Deferred tax assets

€ million	2015	2014
Differences in valuation of property, plant and equipment	259	225
Other differences	-11	-7
Carrying amount as at 31 December	248	218

Other includes, among other things, differences in the reported amounts of derivatives and provisions and the accounting treatment for tax purposes.

Gross movement in deferred tax assets

€ million	Property, plant and equipment	Tax losses carried forward	Other	Total
Carrying amount as at 1 January 2014	245	4	-5	244
Movements 2014				
Added directly via equity	-	-	-7	-7
Realised temporary differences	-20	-	5	-15
Realised tax loss carryforwards	-	-4	-	-4
Total	-20	-4	-2	-26
Carrying amount as at 31 December 2014	225	-	-7	218
Movements 2015				
Added directly via equity	-	-	-3	-3
Realised temporary differences	-7	-	-1	-8
Other changes	-1	-	-	-1
Reclassification to assets held for sale	42	-	-	42
Total	34	-	-4	30
Carrying amount as at 31 December 2015	259	-	-11	248

The deferred tax assets of €259 million in respect of property, plant and equipment (2014: €225 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 increase of €30 million in the deferred tax assets in 2015 is largely caused by the reclassification of the deferred tax position relating to Endinet (€42 million). The change in the deferred tax recognised in the income statement (€8 million), the change in the deferred tax asset recognised directly in equity (€3 million) and an other movement (€1 million) have the effect of reducing the deferred tax assets by a total of €12 million.

The lower figure for the realisation of temporary differences in 2015 compared with 2014 on the property, plant and equipment is largely a consequence of an adjustment to the amount recognised in prior years in respect of the sale of the Spaklerweg site. Additionally, the tranches for the years 2009–2011 and the second half of 2013 were entirely written down for tax purposes in connection with the arbitrary amortisation allowed in those years.

There were no changes in the rates of corporate income tax in 2015. As at year-end 2015, there was an unrecognised deferred tax asset of €11 million. This relates to tax loss carryforwards relating to our activities in Germany in connection with the projected results in the medium term for our German holding company.

Note 18 Trade and other payables

Trade and other payables

€ million	2015	2014
Trade payables	68	32
Amounts due to construction contract customers	6	6
Other payables	59	65
Carrying amount as at 31 December	133	103

Note 19 Leases

The following tables of assets and liabilities relating to leases do not include the figures for Endinet as at year-end 2015.

Finance lease receivables

At year-end 2015 and 2014, 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:

Operating lease receivables

€ million	2015	2014
Less than 1 year	24	24
Between 1 and 5 years	98	99
Over 5 years	75	85
Total as at 31 December	197	208

At 31 December 2015, the operating leases related mainly to rental of transformers, electric vehicle charge points 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 2015				
Future minimum lease obligations	11	43	238	292
Future finance expense on finance leases	-12	-49	-69	-130
Present value of finance lease obligations	-1	-6	169	162
As at 31 December 2014				
Future minimum lease obligations	10	39	223	272
Future finance expense on finance leases	-11	-43	-73	-127
Present value of finance lease obligations	-1	-4	150	145

Finance lease payables at year-end 2015 and year-end 2014 mainly related to an obligation in respect of two cross-border lease transactions (see note [2]).

The total future minimum lease obligations on operating leases were as follows:

Operating lease liabilities

€ million	2015	2014
Less than 1 year	23	21
Between 1 and 5 years	35	36
Over 5 years	5	4
Total as at 31 December	63	61

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	2015	2014
Operating leases	28	26
Additional services	19	20
Total as at 31 December	47	46

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	2015	2014
Capital expenditure commitments regarding property, plant and equipment	121	125
Other purchasing commitments	249	259
Total as at 31 December	370	384

The commitments as at year-end 2015 exclude those of Endinet. Including Endinet, the capital expenditure commitments amount to €124 million and the other purchase commitments amount to €255 million.

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 at the beginning of 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 €19 million. However, given the uncertainties, these receivables have not been recognised in the balance sheet as at 31 December 2015.

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 in one specific situation of alleged energy supply, along with other matters. As regards the latter situation, the activities concerned were accordingly transferred to an energy supplier at the end of 2015. The ACM has since concluded that the activities did indeed fall within the scope of the law with respect to the specific situation in question.

Bank guarantees amounting to €0.6 million had been issued on Alliander's behalf as at year-end 2015 (2014: €0.1 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, the premises will be handed over in 2025 and Alliander will continue to have use of them up to that date. The exercise of the option by the City of Amsterdam at some future date is not expected to affect profit or loss.

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. The periodical interest payments made to the bond holders was considered to be deductible for corporate income tax purposes. So far, no agreement has yet been reached with the Dutch Tax & Customs Administration concerning the tax treatment of this loan. The maximum exposure for Alliander is between €20 million and €30 million. Having consulted external experts, the Management Board decided not to recognise a provision in this respect.

Alliander AG has secured a number of concessions in Germany allowing the company to acquire electricity and gas networks in certain regions of Germany. Under one of these concessions, agreement was reached on the purchase of the gas distribution network in Waldfeucht on 1 January 2015. The successful acquisition of the remaining networks depends on reaching agreement on the purchase price, among other things. In due course, this project involves a possible total investment of around €17 million.

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 operators under which their liability in this respect is restricted to the amount for which they themselves 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. 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.

Note 21 Revenue

Revenue

€ million	2015	2014
Electricity transport and connection services	980	977
Gas transport and connection services	299	321
Metering services	145	145
Operating contributions and other revenues	162	151
Total	1.586	1.594

Revenue for 2015 was down by €7 million compared with 2014, at €1,586 million. This decrease is mainly due to the net effect of lower, regulated transport and connection tariffs for gas (€22 million) and an €11 million increase in contributions to operations and other revenue.

Note 22 Other income

Other income

€ million	2015	2014
Amortisation of construction contributions	64	62
Other income	30	73
Total	94	135

Other income in 2015 came in at €94 million (2014: €135 million). This decrease is largely accounted for by the book profit on the disposal of the KEMA shares (€40 million) in 2014. Apart from this, other income mainly relates to the amortisation of connection contributions from our customers (€64 million) and sundry other income, including compensation received for losses, rents and book profits on the sale of assets and other income (€30 million).

Sale of interest in KEMA

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

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

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

Note 23 Purchase costs and costs of subcontracted work

Purchase costs and costs of subcontracted work

€ million	2015	2014
Grid losses	71	81
Transport capacity and restrictions	160	143
Billing and payment collection	7	7
Contractors, materials and other	162	160
Total	400	391

Purchase costs and costs of subcontracted work was up by €9 million compared with 2014, at €400 million. This increase is mainly the effect of increased costs of transport capacity and restrictions amounting to €17 million due to higher charges and an increase in volumes. The increase was mitigated to some extent by lower costs of network losses, which were down by €10 million, mainly owing to lower tariffs and positive effects from settlement of outstanding accounts and prior-year set-off.

Note 24 Employee benefit expense

Employee benefit expense

€ million	2015	2014
Salaries	330	328
Social security premiums	39	39
Pension costs: - contributions paid to multi-employer plans that are accounted for as defined-contribution plans	40	45
Termination benefit expenses	12	8
Other long-term employee benefit expenses	8	8
	20	16
Other staff costs	15	16
Total	444	444

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
2014¹				
Contributions paid to multi-employer plans	45	-	-	45
Added to provision	-	21	10	31
Released from provision	-	-13	-3	-16
Interest expense	-	-	1	1
Total 2014	45	8	8	61
2015				
Contributions paid to multi-employer plans	40	-	-	40
Added to provision	-	19	9	28
Released from provision	-	-7	-2	-9
Interest expense	-	-	1	1
Total 2015	40	12	8	60

1. The employee benefits relating to 2014 have been restated for comparison purposes in connection with the treatment of Endinet Groep as discontinued operations (IFRS 5).

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 €125 million (2014: €115 million) and related to contract staff for specific projects and to fill vacancies. The costs of external personnel relating to 2014 have been restated for comparison purposes in connection with the treatment of Endinet Groep as discontinued operations (IFRS 5).

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)

	2015	2014
Employed in continuing operations		
-Average during the year	5.411	5.547
-As at 31 December	5.388	5.433
-Number of permanent staff outside the Netherlands	172	151

The number of permanent staff employed in discontinued operations at year-end 2015 amount to 265 FTEs (2014: 293 FTEs).

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 new act contains rules for the maximum remuneration for board members and 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 the network operators Liander N.V. and Endinet B.V., which are required to report on the remuneration of Management Board members and senior executives. In addition, transparency is requested on the remuneration of other employees, including temporary hires, and termination payments exceeding a set limit in the reporting year. The separate annual reports of both network operators, which are to be published in the second quarter of 2016, will contain disclosures on the WNT requirements applicable to the network operators.

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. These three sections can be found in article 'Corporate governance' of the 2015 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		Short-term variable remuneration		Long-term variable remuneration		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
P.C. Molengraaf	251	231	75	42	74	69	400	342
M.R. van Lieshout	236	218	71	39	69	65	376	322
I.D. Thijssen ¹	208	160	-	-	-	-	208	160
Total	695	609	146	81	143	134	984	824

1. As from 1 March 2014

The fixed salary concerns the actual payment per annum, without amounts accrued for other remuneration elements. The increase in the fixed salary in 2015 compared with the preceding year is essentially explained by the fact that pension accrual on that part of the salary in excess of €100,000 per annum ceased to be allowed with effect from 2015. This part of the pension accrual has therefore been included in the fixed salary as from the beginning of 2015. The short-term variable remuneration concerns the amount earned in respect of the reporting period. For 2014, the Supervisory Board made use of its discretionary power to reduce the short-term variable remuneration. The long-term variable remuneration concerns a payment that has been earned over a period of three years. As at year-end 2015, the long-term variable remuneration figure concerns the period 2013-2015. For the 2014 reporting period, the figure concerns the period 2012-2014. Details of the short-term and long-term variable remuneration calculations are contained in the Remuneration Report.

Pension contributions

€ thousand	2015	2014
P.C. Molengraaf	19	41
M.R. van Lieshout	18	39
I.D. Thijssen ¹	18	28
Total	55	108

1. As from 1 March 2014

With effect from 1 January 2015, pensionable salary has been limited to a maximum of €100,000, i.e. from 2015 onwards, there is no pension accrual on that part of the salary in excess of €100,000. This explains the lower pension contributions and the increase in fixed salaries in 2015.

Social security charges and other remuneration elements

€ thousand	2015	2014 ²
P.C. Molengraaf	25	57
M.R. van Lieshout	25	57
I.D. Thijssen ¹	11	9
Total	61	123

1. As from 1 March 2014
2. The figures include the crisis levy, totalling €64,000 for 2014 in accordance with the 2013 Budget Agreement (Tax Measures) Implementation Act. The crisis levy ceases to apply with effect from 2015.

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, the use of a company car and, up to year-end 2014, the crisis levy.

Remuneration of the Supervisory Board

€ thousand	2015	2014
E.M. d'Hondt, Chairman	26,7	17,3
F.C.W. Briët ¹	-	30,9
Ms. J.G. van der Linde	17,8	11,5
B. Roetert ²	15,4	-
Ms. J.W.E. Spies ³	-	11,0
Ms. A.P.M. van der Veer-Vergeer ⁴	33,7	28,4
J.C. van Winkelen ⁵	21,4	30,9
Total	115,0	130,0

1. Mr Briët stood down for health reasons on 1 January 2015.
2. Mr Roetert was appointed with effect from 20 February 2015.
3. Ms Spies stood down on 14 December 2015, having accepted the office of Mayor of Alphen aan den Rijn, one of the shareholder municipalities.
4. Because of the premature departure of two members of the Selection, Appointments and Remuneration Committee, Ms Van der Veer-Vergeer, in addition to sitting on the Audit Committee, was also acting member of the Selection, Appointments and Remuneration Committee in 2015.
5. Mr Van Winkelen was reappointed on 9 April 2015.

The differences in remuneration are partly connected with an individual Supervisory Board member's tenure, the office held and/or applicability of the WNT restrictions.

Note 25 Other operating expenses

Other operating expenses

€ million	2015	2014
Additions / releases to provisions	-60	-80
Premises and transport	14	15
Rent and leases	43	43
Corporate staff and ICT	55	53
Sufferance tax and other taxes	111	81
Other	45	38
Total	208	150

There was a gain of €60 million in respect of the amounts added to and released from provisions (2014: net amount released €80 million). This is essentially connected with the settlement of the CDS for an amount of €66 million (2014: €80 million net, released from provisions plus fair value movement on CDS). See note [8] for further details. Additionally, there were additions to other provisions of €6 million (2014: nil).

Sufferance tax and other taxes in 2015 amounted to €111 million compared with €81 million in 2014. The increase of €30 million in this item is due to the levying of sufferance tax by various new municipal authorities in 2015 coupled with higher rates of tax charged.

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	2015	2014
Description of services:		
Audit of the financial statements:	0,8	0,7
Other assurance services	0,3	0,4
Total	1,1	1,1

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 2014 and 2015.

Note 26 Depreciation/amortisation and impairment of non-current assets

Depreciation/amortisation and impairment of non-current assets

€ million	Land and buildings	Networks	Other	Total
2015				
Depreciation	6	212	92	310
Divestments	2	13	13	28
Total 2015	8	225	105	338
2014				
Depreciation	4	205	83	292
Divestments	5	12	12	29
(Reversal) impairments	-5	-	-1	-6
Total 2014	4	217	94	315

The divestments include the accelerated depreciation of decommissioned assets. The figures under the heading 'other' include the scheduled amortisation of intangible assets.

Note 27 Finance income

Finance income

€ million	2015	2014
Interest income on loans and deposits	1	1
Other finance income	14	10
Currency translation differences	39	39
Total	54	50

The other finance income largely concerns the available-for-sale financial assets relating to the cross-border lease contracts (note [6]).

Alliander uses FX swaps to hedge the currency risk. The currency translation differences result from the effect of the movements in the US dollar and sterling exchange rates against the euro on the available-for-sale financial assets (note [6]).

Note 28 Finance expense

Finance expense

€ million	2015	2014
Loans from third parties	-65	-79
Capitalised interest assets under construction	1	3
Fair value movements swaps	-	-1
Currency translation differences	-44	-54
Other finance expense	-17	-12
Total	-125	-143

Finance expense was reduced by €1 million in respect of capitalised construction interest relating to the new build at the Duiven site (2014: €2 million). The capitalised interest was based on an interest rate of 4.0% (2014: 4.0%). In 2014, there was an additional reduction of €1 million in finance expense from the capitalisation of interest on the construction of a heat transmission pipeline by Indigo (6.0% interest rate).

Alliander uses FX swaps to hedge the currency risk. The currency translation differences result from the effect of the movements in the US dollar and sterling exchange rates against the euro on the available-for-sale financial assets (note [6]) and the finance lease obligations (note [19]).

The other finance lease expense relates largely to the finance lease obligations (note [19]) but also includes costs for letters of credit and arranging credit lines.

Note 29 Tax

Tax

€ million	2015	2014
Current tax expense	-59	-68
Movement in deferred taxes	-8	-20
Total	-67	-88

The recognised tax expense of €59 million is made up of tax charges of €73 million for 2015 and an adjustment of €14 million (gain) relating to prior years. This adjustment mainly relates to an amount released from a provision, taking place for tax purposes in 2015 instead of 2014 with the agreement of the Dutch Tax & Customs Administration.

The corporate income tax payable on the 2015 taxable profits of the Alliander N.V. tax group (including the corporate income tax due on the profit from discontinued operations) was €78 million. This is the balance of the calculated corporate income tax on the profit for 2015 (€82 million) and the calculated corporate income tax on movements in balance sheet items recognised directly in equity (€4 million tax credit).

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

%	2015	2014
Enacted corporate income tax rate in the Netherlands	25,0	25,0
Impact of:		
Gain on sale of interest	-	-3,4
Other permanent differences	0,1	0,8
Effective corporate income tax rate	25,1	22,4

The higher effective tax burden in 2015 is the net effect of non-recognition of the loss at Alliander AG (increased tax), tax breaks for capital projects (reduced tax) and cost items that are disallowed for tax purposes (increased tax). The lower effective tax burden in 2014 is due to the fact that tax was not payable on the book profit made on the disposal of the interest in KEMA.

The effective tax burden included in the profit from discontinued operations is 25%.

Note 30 Notes to the consolidated cash flow statement

Cash flow from operating activities

The cash flow from operating activities in 2015 amounted to €513 million compared with €623 million in 2014. The decrease of €110 million compared with 2014 is largely accounted for by a fall in the operating profit, excluding incidental items and fair value movements, partly as a consequence of the reduction in the regulated tariffs and the increase in surfferance tax charges.

Cash flow from investing activities

The cash outflow from investing activities in 2015 amounted to €492 million, which is €82 million higher than in 2014. The reduced cash outflow overall in 2014 is explained by the cash inflow from the sale of the interest in KEMA (in 2014) to DNV GL Group (€80 million) and the partial sale of CDMA Utilities to Eneco (€4 million).

The cash flow relating to investments in property, plant and equipment amounted to €575 million, almost the same as in 2014 (€570 million). The contributions towards capital projects received from third parties in 2015 amounted to €85 million, which is slightly higher than in 2014 (€80 million).

Cash flow from financing activities

The cash flow from financing activities in 2015 amounted to €99 million negative (2014: €201 million negative). The negative cash flow in 2015 is mainly accounted for by the redemption of Euro Commercial Paper (ECP loans) of €112 million and dividend distribution (€125 million), while the proceeds from the termination of a bond loan on maturity (€141 million) had the effect of lifting the cash flow.

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: 9 June 2024). Liander N.V. executes the tasks incumbent on it under the E-Act and the G-Act. Endinet B.V. is owner of the local electricity distribution network in Eindhoven. Endinet is also owner of the local gas distribution network in Eindhoven and in the wider Eindhoven and Oost-Brabant region. Endinet B.V. is designated network operator of these electricity and gas networks under the E-Act and G-Act (expiry date: 13 December 2020).

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 2015, the remaining shares were held by 55 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	2015	2014
Sales of goods and services		
Associates	-	2
Joint ventures	72	71
Total	72	73
Purchase of goods and services		
Associates	9	7
Joint ventures	93	89
Total	102	96

The transactions involving the Province of Gelderland have ceased to be included in these disclosures, owing to the exemption now applicable in the case of related parties that are public authorities. With the exception of the establishment of Duurzame Energie Netwerken Gelderland B.V. (DENG B.V.), there were no material transactions involving the Province of Gelderland. DENG B.V. carried on hardly any activities at all in 2015.

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 2015, Alliander had assets of €19 million (2014: €18 million) in respect of loans granted to related parties and liabilities of €16 million in respect of agreed borrowings on current accounts with related parties (2014: €27 million).

Note 33 Assets and liabilities held for sale and discontinued operations

On 24 March 2015, Alliander and Enexis signed heads of agreement on a transaction under which Enexis Holding would sell to Alliander Activabedrijf Enexis Friesland B.V. and Alliander would in turn sell Endinet Groep to Enexis. The Sale and Purchase Agreement (SPA) was signed on 27 July 2015 and the transaction took effect on 1 January 2016. Coincidentally with the signing of the heads of agreement, in compliance with IFRS 5, Endinet was classified in Alliander's consolidated balance sheet as being held for sale with effect from 24 March 2015, with the corresponding classification of discontinued operations being applied in the consolidated income statement. The held-for-sale classification means that, with effect from 24 March 2015, all of Endinet's assets and liabilities carried in Alliander's consolidated balance sheet were reclassified to the balance sheet items 'assets held for sale' and 'liabilities connected with the assets held for sale'. Depreciation charges relating to Endinet's assets also ceased with effect from 24 March 2015. The financial effect amounts to €29 million (tax effect €7 million). Furthermore, all intercompany accounts between Alliander and Endinet were eliminated prior to recognition as 'held for sale' and 'discontinued operations'.

The discontinued-operations classification means that Endinet Groep's consolidated net profit is recognised and reported in Alliander's income statement. For comparison purposes, the same treatment has been applied to the figures for Alliander relating to 2014.

Balance sheet

€ million	2015
Assets	
Non-current assets	
Property, plant and equipment	554
Intangible assets	41
Non-current financial assets	1
Total non-current assets	596
Current assets	17
Total assets	613
Liabilities	
Non-current liabilities	88
Short-term liabilities	7
Total liabilities	95
Net assets	518

Income statement

€ million	2015	2014
Revenue	95	102
Other Income	5	6
Total income	100	108
Operating expenses		
Purchase costs and costs of subcontracted work	-14	-15
Employee benefit expenses	-21	-21
External personnel expenses	-2	-4
Other operating expenses	-8	-10
Total purchase costs, costs of subcontracted work and operating expenses	-45	49
Depreciation and impairment of property, plant and equipment	-9	-39
Less: Own work capitalised	5	6
Total operating expenses	-49	-82
Operating profit (EBIT)	51	26
Finance income	-	-
Finance expense	-	-
Profit before tax	51	26
Tax	-13	-7
Profit after tax	38	20

Assets held for sale as at year-end 2014 relate to a high-voltage network in central Netherlands (€9 million). The sale of this 150 kV transmission network is an outstanding transaction resulting from the statutory obligation incumbent on the regional network operators to transfer all high-voltage transmission systems operating at 110 kV and above to the national transmission grid operator TenneT. However, as at year-end 2015, it was established that the sale would not take place within one year, so that the asset in question no longer qualified as held for sale as at 31 December 2015.

There are no long-term liabilities associated with the assets held for sale in the case of the above asset. There were also no discontinued operations in 2014.

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 2015 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 income are calculated using the closing rate at the balance sheet date. 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 2015 related to the assets and liabilities connected with two cross-border lease contracts disclosed in the financial statements plus the ECP finance issued at the end of 2015.

Alliander 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 2015 under the Euro Commercial Paper Programme, denominated in US dollars (USD). This position, too, is hedged by means of a forward currency contract. The currency translation differences are recognised through profit or loss and do not affect the equity position.

Currency risk sensitivity analysis

€ million	Position	Income		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 2015					
Exposure in USD	46	-5	4	-	-
Hedged position in USD	-46	5	-4	-	-
Sensitivity of cash flow in USD (net)					
	-	-	-	-	-
Total exposure in foreign currencies	46	-5	4	-	-
Total hedged position in foreign currencies	-46	5	-4	-	-
Sensitivity of cash flow in foreign currencies (net)					
	-	-	-	-	-
As at 31 December 2014					
Exposure in USD	158	-18	14	-	-
Hedged position in USD	-158	18	-14	-	-
Sensitivity of cash flow in USD (net)					
	-	-	-	-	-
Exposure in GBP	155	-17	14	-	-
Hedged position in GBP	-155	17	-14	-	-
Sensitivity of cash flow in GBP (net)					
	-	-	-	-	-
Total exposure in foreign currencies	313	-35	28	-	-
Total hedged position in foreign currencies	-313	35	-28	-	-
Sensitivity of cash flow in foreign currencies (net)					
	-	-	-	-	-

The following important exchange rates were applicable as at the balance sheet date:

Exchange rates

	2015	2014
EUR		
USD	1,09	1,21
GBP	n/a	0,78

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 2015 or 2014.

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 2015						
Assets						
Available-for-sale financial assets and other financial assets	4,2%	Fixed / variable	25	-	229	254
Loans and receivables			5	15	22	42
Cash and cash equivalents		Variable	89	-	-	89
Total assets			119	15	251	385
Loans received						
Subordinated loans	8,6%	Fixed	-5	-24	-58	-87
Private and green loans	2,1%	Fixed	-20	-2	-11	-33
Euro Medium Term Notes	3,7%	Fixed	-400	-299	-796	-1.495
Euro Commercial Paper	0,4%	Fixed	-46	-	-	-46
Other		Variable	-	-	-7	-7
Finance lease obligations	6,6%	Fixed	1	6	-169	-162
Total liabilities			-470	-319	-1.041	-1.830
As at 31 December 2014						
Assets						
Available-for-sale financial assets and other financial assets	2,5%	Fixed / variable	159	-	200	359
Loans and receivables			26	23	19	68
Cash and cash equivalents		Variable	167	-	-	167
Total assets			352	23	219	594
Loans received						
Subordinated loans	8,6%	Fixed	-5	-22	-68	-95
Private and green loans	2,9%	Fixed	-1	-20	-	-21
Euro Medium Term Notes	3,9%	Fixed	-	-399	-1.095	-1.494
Euro Commercial Paper	0,6%	Fixed	-153	-	-	-153
Other		Variable	-	-	-12	-12
Finance lease obligations	6,6%	Fixed	1	4	-150	-145
Total liabilities			-158	-437	-1.325	-1.920

Sensitivity analysis

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 2015 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 2015					
Variable-rate instruments	25	-	-	-	-
Sensitivity of cash flow (net)	25	-	-	-	-
As at 31 December 2014					
Variable-rate instruments	184	-2	2	1	-1
Sensitivity of cash flow (net)	184	-2	2	1	-1

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.

Using a number of interest rate swaps, a proportion of the fixed-rate bond loan issued in 2004 was converted into a variable-rate loan. Prior to 2007, changes in the market value of this loan as well as of the swaps designated as hedges were recognised in finance income and expense. Following the settlement of this fair value hedge in 2007, the loss carried in the fair value hedge reserve is being amortised over the remaining term to maturity of this loan (year-end 2014), or until such time as the loan is repaid.

Cash flow hedging

Alliander previously issued Euro Medium Term Notes. In the period leading up to the issue of the Medium Term Notes in 2004, Alliander hedged the risks connected with the future interest payments by means of interest rate swaps. These swaps were designated as cash flow hedges. When the loans were issued, the interest rate swaps were settled in cash and the loss up to that date, contained in the cash flow hedge reserve, is being amortised over the remaining life of the loans (2014) so that, on balance, the originally hedged interest rate level is recognised in the income statement. Since these interest rate swaps were settled when the loans were entered into, there are no future cash flows from these interest rate swaps. The negative balance as at 31 December 2015 was practically nil (2014: practically nil).

Cash flow hedges

€ million	Hedge ineffectiveness	Hedge reserve as at 1 January	Changes in fair value	Transfer to Income	Hedge reserve as at 31 December
2015					
Interest rate risks					
Interest rate swaps	-	-	-	-	-
Total 2015	-	-	-	-	-
2014					
Interest rate risks					
Interest rate swaps	-	-1	-	1	-
Total 2014	-	-1	-	1	-

The table above presents the pre-tax movements in the cash flow hedge reserve in the financial year. As at year-end 2015, the balance of the cash flow hedge reserve after deduction of deferred tax was practically nil (2014: practically nil).

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. 76% of the cash and cash equivalents (2014: 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 \$2.6 billion (2014: \$3.2 billion). The carrying amount of the associated available-for-sale financial assets included in Alliander's balance sheet amounts to €229 million (2014: €200 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	2015	2014
Not overdue	34	27
0-30 days	23	30
31-90 days	7	6
91-360 days	6	6
> 360 days	4	6
Carrying amount as at 31 December	74	75

The movements in the provision for bad debts relating to trade receivables were as follows:

Movements in the provision for bad debt

€ million	2015	2014
Carrying amount as at 1 January	10	13
Utilised (trade receivables written off)	-2	-2
Released from / added to allowance account charged to income	3	-1
Reclassification to assets held for sale	-2	-
Carrying amount as at 31 December	9	10

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 (2014: 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 2015 Alliander had a committed credit facility of €600 million (up to 30 June 2018). 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 2015, Alliander has an ECP programme totalling €1.5 billion under which an amount of €0.05 billion was outstanding as at year-end (2014: €0.2 billion) and an EMTN programme of €3 billion under which an amount of €1.5 billion was outstanding as at 31 December 2015 (2014: €1.5 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 and CSAs (Credit Support Annexes). In 2015, as in the preceding year, Alliander did not receive any margin call requests.

Liquidity risk 2015 and 2014

€ million	Carrying amount	Contractual cash flows			Total
		Less than 1 year	1 - 5 years	Over 5 years	
As at 31 December 2015					
Loans received					
Principal amounts	-1.661	-470	-326	-868	-1.664
Interest	-	-61	-150	-316	-527
Finance lease obligations	-162	-11	-43	-238	-292
Accounts payable	-133	-133	-	-	-133
Other payables	-377	-370	-	-7	-377
Off balance sheet commitments					
Operating lease liabilities	-	-24	-36	-5	-65
Total	-2.333	-1.069	-555	-1.434	-3.058
As at 31 December 2014					
Loans received					
Principal amounts	-1.763	-158	-747	-862	-1.767
Interest	-	-65	-213	-375	-653
Finance lease obligations	-145	-10	-39	-223	-272
Accounts payable	-103	-103	-	-	-103
Other payables	-379	-367	-	-12	-379
Off balance sheet commitments					
Operating lease liabilities	-	-20	-34	-2	-56
Currency instruments					
Forward obligations	-16	-	-	-	-
Buy	-	295	-	-	295
Sell	-	-311	-	-	-311
Total		-16	-	-	-16
Other derivatives	-	-	-	-	-
Total	-2.406	-739	-1.033	-1.474	-3.246

Measurement of fair value

The following table lists the financial instruments measured at fair value in descending order of the fair value hierarchy, with the levels of the input data used to measure the fair value 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 2015				31 December 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Available-for-sale financial assets	-	229	-	229	-	359	-	359
Current derivatives	-	-	-	-	-	2	-	2
Total Assets	-	229	-	229	-	361	-	361
Liabilities								
Current derivatives	-	-	-	-	-	18	62	80
Total Liabilities	-	-	-	-	-	18	62	80

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. Part of these assets relates 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.

Methods used for level 3 fair value measurement

The amount recognised as a current derivative under the liabilities as at year-end 2014 relates to a CDS associated with an available-for-sale financial asset maturing at the end of May 2015. For further disclosures concerning the measurement and the settlement of this instrument, reference is made to note [8]. The movements in this derivative during the reporting period were as follows:

Reconciliation in level 3 Instruments

€ million	CDS
Carrying amount as at 1 January 2015	62
Fair value movements CDS	4
Settlement options	-66
Carrying amount as at 31 December 2015	-

Fair value of other financial instruments

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

Fair value of financial assets and liabilities measured at amortised costs

€ million	Note	31 December 2015		31 December 2014	
		Fair value	Level	Fair value	Level
Non-current assets					
Other financial assets	7	47	2	44	2
Liabilities					
Non-current liabilities					
Finance lease liabilities ¹	19	-230	2	-142	2
Interest-bearing debt:					
Euro Medium Term Notes	13	-1.236	1	-1.703	1
Other interest-bearing debt	13	-128	2	-180	2
Total non-current liabilities		-1.594		-2.025	
Short-term liabilities					
Interest-bearing debt:					
Euro Medium Term Notes	13	-405	1	-	1
Euro Commercial Paper	13	-46	2	-153	2
Other interest-bearing debt	13	-38	2	-7	2
Total short-term liabilities		-489		-160	
Total liabilities		-2.083		-2.185	

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.

Loans received: 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	2015	2014
Net result on derivatives held for trading:		
Fair value changes in currency instruments	-4	18
Fair value changes interest rate derivatives and options	-	-1
Net result on available-for-sale financial assets	29	-36
Net result on financial liabilities at amortised cost:		
Interest charges on financial liabilities at amortised cost	-76	-86
Interest gains on cash equivalents, loans granted, trade receivables, other receivables and deposits	13	11
Currency translation differences on restricted cash	-30	21
Fees paid and received other than for the calculation of the effective interest rate	-2	-2
Net changes in fair value of cash flow hedges transferred from equity	-	-1
Net finance income and expense	-70	-76
Impairment of trade receivables	-3	1
Fair value changes CDS	62	80
Other operating expenses	59	81

The table below shows the income and expenses in respect of financial instruments recognised directly in equity:

Effect of financial instruments on equity

€ million	2015	2014
Net changes in fair value of cash flow hedges transferred to the income statement	-	1
Total recognised in cash flow hedge reserve	-	1

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. 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 recoverability of receivables, based on past experience and specific developments affecting its suppliers. Impairments of trade receivables are recognised as a result of these assessments. The actual outcome may differ from the assumptions that were used to determine the losses.

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 & 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]. Estimates were used to value the networks in Friesland/Noordoostpolder. The relevant disclosures are contained in note [36].

Note 36 Events after the balance sheet date

Sale of Endinet and purchase of networks in Friesland/Noordoostpolder

The contract (SPA) to acquire parts of the Enexis networks in Friesland and the Noordoostpolder (Activabedrijf Enexis Friesland B.V. – AEF B.V.) with effect from 1 January 2016 and simultaneously to sell to Enexis the networks in the geographical areas of Eindhoven and Zuidoost-Brabant (Endinet Groep B.V.) was signed on 27 July. The transaction involved Alliander selling the shares of Endinet Groep B.V. to Enexis and buying the shares of AEF B.V. (networks in Friesland and the Noordoostpolder) from Enexis with an additional payment by Enexis of €365 million.

AEF B.V. has 51,000 electricity and 196,000 gas connections in Friesland and 28,000 electricity and 27,000 gas connections in the Noordoostpolder. The AEF B.V. networks lie at the heart of the area serviced by Liander and their acquisition will make for more efficient operations. The acquisition is 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 will be including the company in the Alliander consolidation with effect from that date. Enexis Groep B.V. will consolidate Endinet Groep B.V. from the same date.

Under IFRS there are two separate transactions, viz.:

1. the sale of the shares of Endinet Groep B.V., and
2. the purchase of the shares of AEF B.V.

Since this is a transaction that took place on 1 January 2016 (an event after the balance sheet date) but one which predated the publication of the financial statements, the purchase of AEF B.V. and the sale of Endinet have been accounted for in the 2015 financial statements as events after the balance sheet date. The two transactions will be accounted for in the 2016 reporting period.

Sale of shares of Endinet Groep B.V.

For the purposes of calculating the book profit on the sale of the shares of Endinet Groep B.V., IFRS requires the fair value of Endinet to be measured. This has been done on the basis of cash flows for the medium and long term, regulatory developments, outperformance effects and synergistic gains. The fair value of Endinet Groep B.V. as at 1 January 2016 has been calculated at €705 million.

The net assets and liabilities to be transferred to Enexis amount to €518 million, made up as follows:

€ million	2015
Assets	
Non-current assets	
Property, plant and equipment	554
Intangible assets	41
Non-current financial assets	1
Total non-current assets	596
Current assets	17
Total assets	613
Liabilities	
Non-current liabilities	88
Short-term liabilities	7
Total liabilities	95
Net assets	518

The assets and liabilities are presented as assets and liabilities 'held for sale' in the consolidated balance sheet of Alliander as at 31 December 2015. The total net assets include goodwill amounting to €36 million relating to Endinet's activities.

The book result has been calculated as follows:

Book result

€ million	
Fair value Endinet	705
Total net assets	-518
Contributions for personnel	-14
Provisional book result	173

The contribution for staff relates to the payment to be made by Alliander to Enexis in respect of the transfer of 'Not Primarily Network' staff from Alliander / Endinet to Enexis. This is covered by separate agreements in the SPA. The finalised book profit will be recognised in the income statement for 2016.

In this context, incidentally, the agreements reached also provide for a separate external audit of Endinet's figures as at 31 December 2015. Any changes to the net assets will obviously affect the book profit.

Purchase of shares of AEF B.V.

At the time of preparation of these financial statements, there was not yet a complete picture of the AEF B.V. balance sheet, and the liabilities not shown on the face of the balance sheet, or of the accounting policies used. The SPA states that a set of financial statements for 2015 is to be prepared for AEF B.V., which will have an unqualified auditors' report produced by the external auditors of Enexis, providing assurance of the true and fair nature of the figures. Under the terms of the agreement, these financial statements are to be ready by 25 March 2016 at the latest. The finalised fair values of all the identifiable assets and liabilities will be arrived at on the basis of these financial statements and will be published for the first time in Alliander's half-year report for 2016. The SPA also lays down that a number of set-offs will be made between working capital and borrowings, based on the audited figures of AEF B.V. as at 31 December 2015. This will affect the final purchase price.

The debt-free purchase price for AEF B.V. has been calculated at a fair value of €340 million. This figure has again been arrived at on the basis of cash flows for the medium and long term, regulatory changes and any outperformance effects and synergistic gains. The provisional allocation of the purchase price is presented in the following statement.

€ million	Provisional fair value as at 1 January 2016
Assets	
Property, plant and equipment	311
Other non-current assets	32
Intangible assets	3
Current assets	10
Total assets	356
Liabilities	
Deferred tax liabilities	16
Other provisions	2
Current liabilities	9
Total liabilities	27
Net assets acquired	329
Purchase price	
Purchase price	340
Total purchase price	340
Less: net assets acquired	-329
Goodwill	11

The provisional total purchase price as at 1 January 2016 amounted to €340 million. The provisional allocation of this purchase price is shown in the above statement. It should also be mentioned that the above figures are subject to change, to reflect the actual situation as at 1 January 2016, at any time up to one year after the acquisition date (i.e. in the period up to 1 January 2017).

Notes

Net assets acquired (€329 million)

The property, plant and equipment acquired with AEF B.V. relate to distribution networks and connections valued at €311 million and other property, plant and equipment, essentially comprising electricity and gas meters and land and buildings amounting to €32 million. The intangible assets of €3 million relate to lease contracts for switching installations, transformers and compact substations.

The deferred tax liabilities relate to the difference between the reported carrying amounts of the electricity and gas distribution networks and the corresponding tax bases. The provisions relate mainly to provisions for employee benefits and are directly connected with the 125 staff taken over from Enexis.

Goodwill (€11 million)

The goodwill of €11 million is largely related to the provision for deferred tax liabilities.

Other

The total costs associated with the acquisition of AEF B.V. amounted to €2.5 million. An amount of €0.7 million of these costs has been recognised in the income statement for 2015 and the remainder will be accounted for in 2016. AEF B.V. has been incorporated exclusively for the purposes of this transaction. The estimated revenue of AEF B.V. for 2015 is €63 million and the operating profit over the same period is put at €26 million.

Company financial statements

Company balance sheet (as at 31 December, before appropriation of profit)

Company balance sheet as at 31 December, before appropriation of profit

€ million	Note	2015	2014
Non-current assets			
Property, plant and equipment	37	253	243
Intangible assets	38	107	107
Investments in subsidiaries and associates	39	2.228	2.256
Other financial assets	40	2.609	22
Total non-current assets		5.197	2.628
Current assets			
Other receivables		13	14
Other financial assets		25	25
Derivatives	8	-	2
Receivables from subsidiaries	41	326	2.809
Cash and cash equivalents	42	77	169
Total current assets		441	3.019
Total assets		5.638	5.647
Equity			
	43		
Share capital		684	684
Share premium		671	671
Subordinated perpetual bond ¹		496	496
Revaluation reserve ¹		53	42
Other reserves		1.548	1.363
Profit after tax		235	323
Total equity		3.687	3.579
Non-current liabilities			
Interest-bearing debt	44	1.189	1.605
Total non-current liabilities		1.189	1.605
Provisions			
	45		
		45	44
Short-term liabilities			
Current and accrued liabilities		717	401
Derivatives	8	-	18
Total short-term liabilities		717	419
Total equity and liabilities		5.638	5.647

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

Company income statement

Company income statement

€ million	Note	2015	2014
Other income less expenses after tax	47	10	3
Result of subsidiaries and associates after taxation		225	320
Net profit after tax		235	323

Notes to the company financial statements

Accounting policies for the company financial statements

Alliander uses the option provided by Section 362, subsection 8, Part 9, Book 2, of the Netherlands Civil Code to prepare the company financial statements in accordance with the accounting policies that are used in the preparation of the consolidated financial statements. These accounting policies also contain the basis on which financial instruments are presented as equity or as borrowed capital. As permitted by Section 402, Part 9, Book 2, of the Netherlands Civil Code, the company income statement is presented in abridged form.

Investments in subsidiaries

Investments in subsidiaries are recognised at net asset value, measured on the basis of IFRS accounting policies as used in the consolidated financial statements. The difference between consideration paid and net asset value on the date of acquisition is recognised separately as goodwill.

Note 37 Property, plant and equipment

Property, plant and equipment

€ million	Land and buildings	Other plant and equipment	Assets under construction	Total
Historical cost	158	294	43	495
Accumulated depreciation and impairment	-81	-202	-	-283
Carrying amount as at 1 January 2014	77	92	43	212
Movements 2014				
Investments	-	5	70	75
Divestments	-3	-1	-5	-9
Depreciation	-4	-42	-	-46
Investment in joint operation CDMA	-	9	-	9
Transfers and other movements	-	37	-35	2
Total	-7	8	30	31
Carrying amount as at 31 December 2014				
Historical cost	150	345	73	568
Accumulated depreciation and impairment	-80	-245	-	-325
Carrying amount as at 31 December 2014	70	100	73	243
Movements 2015				
Investments	-	17	61	78
Divestments	-2	-5	-	-7
Depreciation	-5	-50	-	-55
Transfers and other movements	68	44	-118	-6
Total	61	6	-57	10
Carrying amount as at 31 December 2015				
Historical cost	196	365	16	577
Accumulated depreciation and impairment	-65	-259	-	-324
Carrying amount as at 31 December 2015	131	106	16	253

Investments

Capital expenditure on property, plant and equipment totalled €78 million (2014: €75 million). This relates mainly to the redevelopment of the site in Duiven and investment in hardware and software.

Note 38 Intangible assets

Intangible assets is made up of goodwill relating to the acquisitions of Endinet (€97 million) and Stam (€7 million), see note [4]. In 2014 and 2015, the item includes CDMA licences (€3 million), see note [5].

Note 39 Investments in subsidiaries and associates

Investments in subsidiaries and associates

€ million	Investments in subsidiaries	Investments in associates	Total
Carrying amount as at 1 January 2014	2.153	1	2.154
Movements 2014			
Dividends received	-271	-	-271
Result for the year	320	-	320
Internal transfers	-1	-	-1
Issue of share capital	45	-	45
Movement in revaluation reserve	19	-	19
Sale interest CDMA	-4	-	-4
Deconsolidation CDMA	-5	-	-5
Other changes	-	-1	-1
Total	103	-1	102
Carrying amount as at 31 December 2014	2.256	-	2.256
Movements 2015			
Dividends received	-339	-	-339
Result for the year	225	-	225
Issue of share capital	76	-	76
Movement in revaluation reserve	10	-	10
Other changes	-1	1	-
Total	-29	1	-28
Carrying amount as at 31 December 2015	2.227	1	2.228

Dividends amounting to €339 million (2014: €271 million) were received in 2015 from the subsidiaries Liander N.V. and Alliander Participaties B.V.. The investment of €76 million in 2014 relates to payment of share capital connected with 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. In the company financial statements, CDMA is 59.28% accounted for as a joint operation.

The various share capital investments are listed separately under the heading 'Subsidiaries and associates' in the 'Other information' part of the report..

Note 40 Other financial assets

Other financial assets

€ million	Deferred tax assets	Loans granted to subsidiaries	Other receivables	Total
Carrying amount as at 1 January 2014	3		20	23
Movements 2014				
New receivable	-	-	1	1
Realised temporary differences	6	-	-	6
Tax losses carried forward	-4	-	-	-4
Loans paid	-	-	-4	-4
Total	2	-	-3	-1
Carrying amount as at 31 December 2014	5	-	17	22
Movements 2015				
New receivable	-	2.585	2	2.587
Realised temporary differences	5	-	-	5
Loans paid	-	-	-5	-5
Total	5	2.585	-3	2.587
Carrying amount as at 31 December 2015	10	2.585	14	2.609

In June 2015, Alliander granted a long-term loan of €2,566 million to Liander, along with other lending. This amount has been deducted from the current account. This means that, with effect from June 2015, there have been two separate financing arrangements between Alliander and Liander, namely the new 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 2015 is 4.1%, 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 2015 the fair value is €3,112 million.

Note 41 Receivables from subsidiaries

There is group-wide financing 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 distribution of dividends to the holding company or payment of share premium by the holding company.

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 3.85% for subsidiaries operating in the regulated market, 3.96% for 'Stable Business' subsidiaries and 4.21% for 'New Business & High Risk' subsidiaries. The interest rate is based on the average cost of borrowing on Alliander's lending portfolio, plus 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 2015 did not include any restricted cash (2014: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	2015	2014
Carrying amount as at 1 January	1.764	1.886
Movements		
New loans	475	162
Repayments	-579	-284
Total	-104	-122
Carrying amount as at 31 December	1.660	1.764

Long-term interest-bearing debt including current portion

€ million	Effective interest rate		Current portion		Non-current portion	
	2015	2014	2015	2014	2015	2014
Subordinated loans	8,6%	8,6%	5	5	81	86
Private and green loans	2,1%	2,9%	20	1	13	19
Medium Term Notes	3,7%	3,9%	400	-	1.095	1.494
Euro Commercial Paper	0,4%	0,6%	46	153	-	-
Other	0,0%	0,0%	-	-	-	6
Carrying amount as at 31 December			471	159	1.189	1.605

Subordinated loans

These loans were provided by shareholders and are subordinate to other liabilities.

Note 45 Provisions

Provisions

€ million	Post-employment medical benefits	Termination benefits	Other employee provisions	Environmental restoration provision	Other provisions	Total
Carrying amount as at 1 January 2014	1	11	37	2	2	53
Movements 2014						
Released	-	-12	-3	-	-	-15
Added	-	19	10	-	-	29
Utilised	-1	-11	-6	-2	-	-20
Interest	-	-	1	-	-	1
Major curtailments and settlements	-	-2	-	-	-2	-4
Total	-1	-6	2	-2	-2	-9
Carrying amount as at 31 December 2014	-	5	39	-	-	44
Movements 2015						
Released	-	-5	-2	-	-	-7
Added	-	17	9	-	-	26
Utilised	-2	-13	-9	-	-	-24
Interest	-	-	1	-	-	1
Major curtailments and settlements	2	1	2	-	-	5
Total	-	-	1	-	-	1
Carrying amount as at 31 December 2015	-	5	40	-	-	45

The post-employment medical benefits concerns a post-employment medical scheme for retired employees. This obligation is not insured with a pension fund or external insurer and, by the end of 2015, had practically run down to zero. As at year-end 2015, the reorganisation provision amounted to €5 million (2014: €5 million). Other employee provisions mainly consists of the provision for long-service benefits (paid to employees who have completed 10, 20, 30, 40 and 50 years of service) and for payments on reaching retirement age and the provision for shorter working hours for older employees, a transitional scheme which was created by the Collective Labour Agreement of December 2005 to allow older staff members to reduce their working hours in the future.

Note 46 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 under 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 its network operators under which their liability in this respect is restricted to the amount for which they themselves would be liable if a tax group did not exist.

As at year-end 2015, Alliander had issued parent company guarantees amounting to €50 million (2014: €19 million). Bank guarantees amounting to nil (2014: €0.1 million) had been issued on Alliander's behalf as at year-end 2015.

Note 47 Other income less expenses after tax

The balance of other income and expenses after tax, showing income of €10 million (2014: €3 million expense) generally relates to group-wide activities at holding company level. The increased income compared with 2014 is largely the result of passing on interest charges internally in 2015.

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 2015 consolidated financial statements.

Arnhem, 25 February 2016

Management Board

Mr P.C. Molengraaf (chairman)

Mr M.R. van Lieshout

Ms I.D. Thijssen

Supervisory Board

Mr E.M. d'Hondt (chairman)

Mr J.C. van Winkelen

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.

1. 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.
2. 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.
3. Profit distributions are limited to the distributable part of the shareholders' equity.
4. Distribution of profit will take place after the adoption of the income statement, which demonstrates that it is permissible.
5. 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.
6. 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.

Events after balance sheet date

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2. the purchase of the shares of AEF B.V.

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Short-term liabilities	7
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Provisional book result	173

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Intangible assets	3
Current assets	10
Total assets	356
Liabilities	
Deferred tax liabilities	16
Other provisions	2
Current liabilities	9
Total liabilities	27
Net assets acquired	329
Purchase price	
Purchase price	340
Total purchase price	340
Less: net assets acquired	-329
Goodwill	11

The provisional total purchase price as at 1 January 2016 amounted to €340 million. The provisional allocation of this purchase price is shown in the above statement. It should also be mentioned that the above figures are subject to change, to reflect the actual situation as at 1 January 2016, at any time up to one year after the acquisition date (i.e. in the period up to 1 January 2017).

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Net assets acquired (€329 million)

The property, plant and equipment acquired with AEF B.V. relate to distribution networks and connections valued at €311 million and other property, plant and equipment, essentially comprising electricity and gas meters and land and buildings amounting to €32 million. The intangible assets of €3 million relate to lease contracts for switching installations, transformers and compact substations.

The deferred tax liabilities relate to the difference between the reported carrying amounts of the electricity and gas distribution networks and the corresponding tax bases. The provisions relate mainly to provisions for employee benefits and are directly connected with the 125 staff taken over from Enexis.

Goodwill (€11 million)

The goodwill of €11 million is largely related to the provision for deferred tax liabilities.

Other

The total costs associated with the acquisition of AEF B.V. amounted to €2.5 million. An amount of €0.7 million of these costs has been recognised in the income statement for 2015 and the remainder will be accounted for in 2016. AEF B.V. has been incorporated exclusively for the purposes of this transaction. The estimated revenue of AEF B.V. for 2015 is €63 million and the operating profit over the same period is put at €26 million.

Dividend proposal 2015

The Management Board has determined, with the approval of the Supervisory Board, to add €149.8 million of the profit to other reserves. The remaining profit of €85.0 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 2015 financial year.

The dividend for 2015 decreased relative to 2014 by €40 million due to the lower net profit for 2015.

Important subsidiaries and other participations

As at 31 December 2015

	Based in	%
Consolidated subsidiaries		
Liander N.V. *	Arnhem	100%
Liander Infra Oost N.V. *	Arnhem	100%
Liander Infra West N.V. *	Amsterdam	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. Infreatechniek B.V.*	Heerhugowaard	100%
Sol Energy v.o.f.*	Heerhugowaard	67%
Endinet Groep B.V. *	Eindhoven	100%
Endinet Infra Bedrijfsvoering B.V.*	Eindhoven	100%
Endinet Infra Ontwikkeling B.V.*	Eindhoven	100%
Endinet B.V.*	Eindhoven	100%
Alliander Telecom N.V. *	Amsterdam	100%
Kenter B.V. *	Arnhem	100%
Alliander Participaties 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%
Hoom B.V. *	Arnhem	100%
Energy Exchange Enablers B.V.*	Arnhem	100%
Alliander Smart Connections B.V.*	Arnhem	100%
Alliander Duurzame Gebiedsontwikkeling *	Amsterdam	100%
Indigo B.V.	Arnhem	95%
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%
Alliander Netz Osthavelland GmbH	Osthavelland	100%
Alliander Netz Brandenburg GmbH	Brandenburg	100%
Alliander Netzbetrieb Hennigsdorf GmbH	Hennigsdorf	50%
Alliander Stadtlicht Rhein-Ruhr	Hagen	100%
Bietergemeinschaft Hagen GBR	Hagen	100%

Joint operations

CDMA Utilities B.V.	Arnhem	50%
Utility Connect B.V.	Arnhem	50%
Entropia Assets B.V.	Arnhem	50%

Overige deelnemingen en joint ventures

Plugwise Holding B.V.	Sassenheim	37%
Locamation Beheer B.V.	Enschede	23%
The New Motion B.V.	Amsterdam	20%
Ziut B.V.	Arnhem	53%
Ziut Advies B.V.	Arnhem	53%
Redstack B.V.	Sneek	33%
INNAX Group B.V.	Veenendaal	6%
Reddyn B.V.	Arnhem	50%
EDSN B.V.	Baarn	26%
Etriplus B.V.	Venlo	25%
Duurzame Energie Netwerken Gelderland B.V.	Arnhem	50%
Stadtbeleuchtung Hagen GmbH	Hagen	49%
Energy App Factory B.V.	Arnhem	49%

- Alliander N.V. has issued a Section 403 statement of liability for these subsidiaries.

Independent auditor's report

To: the general meeting of shareholders and supervisory board of Alliander N.V

Report on the financial statements

Our opinion

In our opinion:

- the consolidated financial statements give a true and fair view of the financial position of Alliander N.V. as at 31 December 2015 and of its result and cash flows for the year then ended 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 give a true and fair view of the financial position of Alliander N.V. as at 31 December 2015 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2015 of Alliander N.V., Arnhem ('the company'). The financial statements include the consolidated financial statements of Alliander N.V. and its subsidiaries (together: 'the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2015;
- the following statements for 2015: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.
- The company financial statements comprise:
- the company balance sheet as at 31 December 2015;
- the company profit and loss account for the year then ended; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

The 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 "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.

Our audit approach

Overview

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the management board made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain, such as judgements with respect to goodwill, provisions, 'precario', grid losses, useful lives and impairments of fixed assets, (deferred) tax positions and the provisional accounting of acquisition and divestment of group companies. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the management board that may represent a risk of material misstatement due to fraud.

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of an energy network company and grid operator. We therefore included specialists in the areas of IT, taxes, treasury, valuation, regulation and corporate governance in our team.



Materiality:

- Overall materiality: € 10 million, which represents 0.75% of total expenses.

Audit scope

- We paid particular attention in our audit work to the significant components Alliander N.V. and Liander N.V.
- Special attention was given – besides the key audit matters mentioned below – to the expiration of the credit default swap and the release of the related provision, claims and litigations against the entity, the remuneration of the management board and the supervisory board and the internal control including the business control framework.
- Audit coverage: 95% of consolidated revenue and 90% of consolidated total assets.

Key audit matters

- Useful lives of property, plant and equipment
- Divestment of Endinet Groep B.V. and acquisition of Aktivabedrijf Enexis Friesland B.V.
- Uncertain income tax positions
- Strip risk with respect to cross border lease transactions

Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	€ 10 million (2014: € 10 million).
How we determined it	0.75% of total expenses.
Rationale for benchmark applied	<p>We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements and the importance of expenses in a regulatory environment. Grid companies are responsible for maintaining the energy grids, distributing energy to customers and connecting customers to the energy grids. Alliander's revenues are regulated as well as non-regulated. The regulated revenues result from distributing electricity and gas to customers and connecting customers to the energy grids and consist of fixed components, being the allowed capacity fee set by the Dutch Authority Consumer & Markets ('ACM'). The allowed capacity fee is based on the incurred expenses with respect to the regulatory environment.</p> <p>We compared the applied benchmark with alternative benchmarks, which could be relevant based on our analysis of the common information needs of users of the financial statements. These alternative benchmarks are based on profit before tax and the value of the electricity and gas grids.</p> <p>Applying the more common benchmark of 5% of profit before tax would result in a higher materiality amounting to € 13 million (2014: € 20 million).</p>
Component materiality	To each component in our audit scope, we, based on our judgement, allocate materiality that is less than our overall group materiality. The range of materiality allocated across components was between €6 and €9 million.

We also take misstatements and/or possible misstatements into account that, in our judgment, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above €1 million (2014: €1 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons. We reported all identified misstatements, including misstatements below €1 million, to the management board. These identified misstatements have been adjusted.

The scope of our group audit

Alliander N.V. is head of a group of entities. The financial information of this group is included in the consolidated financial statements of Alliander N.V.

The group audit focussed on the significant components Alliander N.V. and Liander N.V. Additionally, we audited the group's consolidation, the notes and disclosures in the financial statements. All audit work at all group components was performed by the same audit team.

Components Alliander N.V. and Liander N.V. were subjected to audits of their complete financial information as those components are individually significant to the group. The remaining components were subjected to specific risk-focussed audit procedures as they include significant or higher risk areas.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

- Revenue 95%
- Total assets 90%
- Profit before tax 88%

None of the remaining components represented more than 3% of the consolidated revenue or total consolidated assets. For those remaining components we performed, amongst others, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

By performing the procedures above at the group components, combined with additional procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

The key audit matters 'Useful lives of property, plant and equipment', 'Uncertain income tax positions' and 'Strip risk with respect to cross border lease transactions' are just as last year a key audit matter. The divestment of Endinet Group B.V. and acquisition of Aktivabedrijf Enexis Friesland B.V. is a new key audit matter. The in 2014 reported key audit matter 'Valuation of the Credit Default Swaps (CDS) including the provision for the risk related to the CDS' is no longer a key audit matter for our audit due to the expiration of the CDS and release of the provision.

Key audit matter	How our audit addressed the matter
<p>Useful lives of property, plant and equipment</p> <p>The disclosures to the property, plant and equipment are included in the accounting policies and notes 3, 26 and 35.</p> <p>The useful lives of property, plant and equipment has been identified as a key audit matter as property, plant and equipment is the most significant balance sheet item in the financial statements and given the subjectivity of the assessment of the useful lives. The carrying value of property, plant and equipment as at 31 December 2015 amounts to € 5.9 billion, divided in land and buildings, grids, other plant and equipment, and assets under construction. Based on EU-IFRS, the management board is required to annually reconsider the useful lives of property, plant and equipment. Due to the carrying value amounting to € 5.0 billion, the reconsideration of the useful lives of grids was especially significant for our audit. As a result of the continuous developments in the energy landscape, which are relevant to all grid companies, the estimates of useful lives of electricity and gas grids are affected by market and technological developments, regulatory and political considerations, combined with choices in maintenance and investment plans. This implies that the process of reconsidering useful lives is complex, requires management judgement on underlying assumptions, and is inherently subjective. In 2015 the management board extensively evaluated the useful lives of property, plant and equipment with specific attention for the gas grids and traditional meters. This evaluation did not result in any adjustments of the useful lives of property, plant and equipment.</p>	<p>As part of our audit work, we tested the reasonable and consistent application of the underlying assumptions in the annual evaluation performed by management of the useful lives and the carrying value as at 31 December 2015 of separate groups of assets, such as meters, cables and pipes, and substations, taking into account aforementioned developments. We used, among others, known maintenance data and planned investments, based on the company's long-term strategic plans. The company has performed an additional analysis regarding the useful life of the gas grids given the developments in the energy transition. From this analysis, among other things, it was concluded that on the basis of IAS 16 the economic useful life is equal to the regulatory useful lifetime, so that costs and revenues are realized simultaneously and that the company has a legal obligation to provide access to and to maintain the gas and electricity grids.</p> <p>We concur with the management board's conclusion that as at 31 December 2015 no adjustments is needed in the useful lives of property, plant and equipment.</p>
<p>Divestment Endinet Groep B.V. and acquisition of Aktivabedrijf Enexis Friesland B.V.</p> <p>The disclosures to these transactions are included in the accounting policies and note 36.</p> <p>On 27 July 2015 Alliander N.V. and Enexis Holding N.V. agreed to exchange a part of their grids. On 1 January 2016 Alliander N.V. acquired the shares of Aktivabedrijf Enexis Friesland B.V. (grids in Friesland and the Noordoostpolder) from Enexis Holding N.V. On the same date Alliander N.V. sold their shares of Endinet Groep B.V. (grids in the Eindhoven region and South-East Brabant) to Enexis Holding N.V. As at 31 December 2015 Endinet Groep B.V. is recognized as 'assets and liabilities held for sale' and presented as 'result from discontinued operations'. The transaction has resulted in a provisional payment of € 365 million in January 2016 by Enexis Holding N.V. to Alliander N.V. The valuation of the exchanged grids determines the book profit on the sold shares and the goodwill for the acquired shares. The (provisional) fair value of Endinet Groep B.V. has been determined on € 705 million. The provisional book profit, which Alliander has achieved with the sale and that will be recognized in 2016, amounts to € 173 million. The (provisional) purchase price of the shares of Aktivabedrijf Enexis Friesland B.V. amounts to € 340 million. External experts have supported Alliander N.V. in allocating the purchase price to the individual assets and liabilities. This allocation has been recognized as provisional by Alliander, as in the aforementioned agreement between Alliander N.V. and Enexis Holding N.V., the agreed financial statements of Aktivabedrijf Enexis Friesland B.V., which is the basis for the settlement, are not yet available and therefore a number of uncertainties remain.</p>	<p>As part of our audit procedures, we have assessed the aforementioned agreement and other legal documents that are related to these transactions. We have ascertained that Endinet Groep B.V. has been recognized in accordance with IFRS 5 as 'assets and liabilities held for sale' and as 'result from discontinued operations'. We have ascertained that the provisional payment by the bank is received. Supported by our valuation specialists, we have audited the calculations of the (provisional) fair value of Endinet Group B.V. and the (provisional) purchase price of the shares of Aktivabedrijf Enexis Friesland B.V. We have reviewed the assumptions used by the management board in relation to the cash flow forecasts for the (medium)long term, regulatory developments, outperformance effects and synergy benefits. The competence and objectivity of the external experts have been assessed by us. Finally, we audited whether the transactions, including the main uncertainties, have been appropriately disclosed in the financial statements in accordance with IFRS 3 as a subsequent event after the balance sheet date.</p>

Key audit matter**Uncertain income tax positions**

The disclosures to the uncertain income tax positions are included in note 20.

The uncertain income tax position has been identified as a key audit matter as this ongoing disagreement between Alliander N.V. and the tax authority results in a significant uncertainty. In November 2010, Alliander issued a subordinated perpetual bond with a nominal amount of € 500 million, which was redeemed in 2013. According to EU-IFRS, this instrument classifies as equity. The paid periodic compensation to the bond holders was considered by management to be deductible for corporate income tax purposes. The Dutch tax authorities did not accept this deduction of periodic compensation. In 2015 the appeal of Alliander to this decision was dismissed by the tax authorities. On 23 April 2015 Alliander N.V. has submitted a notice of appeal against this decision and this lawsuit is ongoing. The management board estimates the maximum impact for Alliander at year-end 2015 to be between € 20 million and € 30 million, based on the income tax for the periodic compensations for the years 2010 to 2013, increased with estimated legal interest. Based on written opinions by external legal and tax experts, the management board concludes that it is highly probable that Alliander's position in the tax declaration is accepted in the end. Therefore, no provision has been recognised.

How our audit addressed the matter

Supported by our tax specialists, we read, among other things, the correspondence between the tax authorities, Alliander N.V. and the external experts which were appointed by the management board. We reviewed the management board estimate and verified its reasonableness and the supporting level of documentation. We assessed the level of expertise and the independence of the external experts. Additionally, we verified the adequate disclosure in the financial statements of the uncertain income tax positions.

Key audit matter**Strip risk with respect to cross border lease transactions**

The disclosures to the cross border lease transactions are included in the accounting policies and notes 3, 19, and 34.

The 'strip risk' of the cross border lease transactions has been identified as a key audit matter as this is a significant off-balance liability with respect to the cross border lease contracts. The 'strip risk' is the portion of the 'termination value', which cannot be settled from the deposits and investments held for this purpose in the event of early termination of a cross border lease transaction by Alliander. At year-end 2015, the 'strip risk' for all transactions amounts to \$ 180 million (year-end 2014: \$ 194 million). The level of the 'strip risk' is significantly affected by the interest developments in the United States. Alliander N.V. is not contractually obliged to cooperate with an offer of an investor for an early termination of a CBL. Based on a consideration of the costs in relation to the decrease of the risk that the company will realize, the management board may decide to accept the offer of an investor for termination of a lease. In 2015 the ENW-transactions have been ended at the request of the investor.

How our audit addressed the matter

We tested the accurate calculation of the 'strip risk'. We reconciled the 'termination value' with the lease contracts. The value of the deposits and investments was reconciled to confirmations of independent and professional third parties. Based on the contracts, we verified that the company is entitled to not early terminating the contracts and that the company is not liable at the moment and in future for any deficits, as long as the contracts are not terminated early. The management board confirmed to us that Alliander has no intentions to early terminating the contracts. This confirmation is consistent with other audit evidence we obtained, including reading minutes of management board meetings and attending meetings of the audit committee and supervisory board. We also audited that the early termination ENW-transactions on initiative of the investor has been adequately accounted for. Finally we reviewed and determined that the cross border lease positions, including the 'strip risk' are adequately disclosed in the financial statements.

Responsibilities of the management board and the supervisory board

The management board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and for
- such internal control as the management board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the management board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the management board should prepare the financial statements using the going concern basis of accounting unless the management board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The management board 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 responsibility is to plan and perform an audit engagement to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A more detailed description of our responsibilities is set out in the appendix to our report.

Report on other legal and regulatory requirements

Our report on the management board report and the other information

Pursuant to the legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the management board report and other information):

- We have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- We report that the management board report, to the extent we can assess, is consistent with the financial statements.

Our appointment

We were appointed as auditors of Alliander N.V. by the supervisory board following the passing of a resolution by the shareholders at the annual meeting held on 8 April 2015. The year 2015 is our last year as external auditor of the company as a result of the current regulation for rotation of audit firms.

Amsterdam, 23 February 2016

PricewaterhouseCoopers Accountants N.V.

Original Dutch version signed by:

drs. R. Dekkers RA

Appendix to our auditor's report on the financial statements 2015 of Alliander N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgment and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among others of:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, 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 error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management board.
- Concluding on the appropriateness of the management board's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Assurance report

Independent assurance report

To: the Board of Management of Alliander N.V.

The Board of Management of Alliander N.V. ('the Organisation') engaged us to provide assurance on the sustainability information in the Annual Report 2015. We believe these procedures fulfil the rational objective as disclosed by Alliander N.V. in the section 'About this report' (page 3-6).

Our engagement consisted of a combination of limited assurance (leading to a 'conclusion') and reasonable assurance (leading to an 'opinion') on the following information:

- We reviewed the sustainability information presented in the following chapters, leading to limited assurance:
 - About this report (page 3-6)
 - About Alliander (page 7-26)
 - Our results in 2015:
 - Customers (page 28-38)
 - Employees (page 39-45)
 - Shareholders and investors (page 46, 66-72)
 - The impact cases on pages 32, 44 and 71
- We audited the sustainability information presented in the column 'Results 2015' on page 21-22 in the chapter 'Objectives & results' and the materiality assessment presented on page 203-207 in the chapter 'Materiality test', leading to reasonable assurance.

Our conclusion

Based on our review procedures and the evidence we have obtained, nothing has come to our attention that causes us to believe that the sustainability information in the Annual Report 2015 does not, in all material respects, provide a reliable and appropriate presentation of Alliander N.V.'s policy with regard to sustainable development and the related activities, events and performance of Alliander N.V. during the reporting year, in accordance with the Alliander N.V. reporting criteria.

Our opinion

Based on our audit procedures and the evidence we have obtained, in our opinion the Results 2015 as presented in chapter 'Objectives & results' of the Annual Report 2015, and the materiality assessment presented on page 203-207 in chapter 'Materiality test' are, in all material respects, presented reliably and adequately, in accordance with the Alliander N.V. reporting criteria.

Our conclusion and opinion are to be read in the context of the remainder of this report.

The scope of our assurance

We reviewed the sustainability information included in the Annual Report 2015 of Alliander N.V., Arnhem. This sustainability information consists of:

- the policy of Alliander N.V. concerning the sustainable development for the year ended 31 December 2015; and
- the activities, events and performance of Alliander N.V. concerning the sustainable development for the year ended 31 December 2015; and
- the scoping of the sustainability information, disclosed by management in the paragraph 'Integrated reporting' on page 5 of the Annual Report 2015.

A review focuses on obtaining limited assurance. The procedures performed to obtain limited assurance focus on assessing the plausibility of information and are substantially less in scope than for a reasonable assurance engagement. The procedures we performed in this respect consisted primarily of inquiries with Alliander N.V. staff members and performing analytical procedures on the information disclosed in the Annual Report 2015. The level of assurance obtained through review procedures is therefore less than the assurance obtained from audit procedures.

In addition to our review procedures, we have audited the Results 2015 presented on page 21-22 in chapter 'Objectives & results' and the materiality assessment presented on page 203-207 in chapter 'Materiality test' (leading to an 'opinion').

The basis for our opinion and conclusion

Professional and ethical standards applied

We conducted our assurance engagement in accordance with Dutch law, including Standard 3810N 'Assurance engagements relating to sustainability reports' (hereafter 'Standard 3810N'). Our responsibilities under this standard are further described in the "Our responsibilities" section of this report.

We are independent of Alliander N.V. 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) and other relevant regulations.

Limitations in our scope

The Report contains prospective information, such as ambitions, strategy, targets, expectations and projections. Inherent to this information is that actual future results may be different from the prospective information and therefore it may be uncertain. We do not provide any assurance on the assumptions and feasibility of this prospective information.

The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the sustainability information is free from material misstatement due to fraud or error. This is because there are inherent limitations of an assurance engagement, which result in most of the audit evidence on which the auditor bases the auditor's opinion being persuasive rather than conclusive.

Reporting criteria

Alliander N.V. developed its reporting criteria on the basis of the G4 Guidelines of the Global Reporting Initiative (GRI), which are disclosed in chapter 'About this report', together with detailed information on the reporting scope, processes and methods. We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our opinion and conclusion.

Understanding reporting and measurement methodologies

The information in the scope of this assurance engagement needs to be read and understood together with the reporting criteria, for which Alliander N.V. is solely responsible for selecting and applying. The absence of a significant body of established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Our assurance approach

Materiality

We set thresholds for materiality at the planning stage and reassessed them during the engagement. These helped us to determine the nature, timing and extent of our procedures and to evaluate the effect of identified misstatements on the information presented, both individually and in aggregate. Based on our professional judgement, we determined specific materiality levels for each element of the sustainability information. When determining our materiality thresholds, we considered the relevance of information for both the stakeholders and the organisation based on the materiality assessment of Alliander N.V.

Area of focus in our review

The most significant area of focus we identified in this assurance engagement in relation to the sustainability information is identified below, including a disclosure of how we have tailored our procedures to address this area.

We discussed this area with the Board of Management. This area of particular focus is addressed taking the complete assurance engagement on sustainability into account, including formulating our opinion and conclusion thereon. We do not provide a separate opinion on this area of particular focus.

Area of focus	How the scope of our work addressed the area of focus
<p>One of topics Alliander N.V. reports about on pages 32, 44 and 71 relates to the impact on its stakeholders. Through this disclosure, Alliander N.V. provides insight in how its procedures with respect to sustainability impact its stakeholders. In 2015, the Organisation made its first efforts towards reporting on impact by disclosing three cases about the following: smart meters (page 32), its Step2Work program (page 44) and the heat transport network in Nijmegen (page 71). Alliander N.V. requested us to provide limited assurance on these cases. The impact measurement is an area of focus in our engagement since the three cases contain various assumptions. Some of these assumptions are based on complex calculations, a variety of underlying sources, expertise from external experts (like the impact measurement methodologies and desktop research relating to assumptions) and prospective information or otherwise.</p>	<p>As part of our assurance procedures we have reviewed the cases presented on page 32, 44 and 71. Through interviews with relevant Alliander N.V. staff members and external experts we gained insight in the process followed to determine the assumptions and calculations for the impact measurements. Where Alliander N.V. used the expertise of external experts (i.e., Ecofys and TruePrice) to perform impact measurements, we gathered information about the expertise and objectivity of these experts. We took note of the calculations and performed recalculations for the most important components of these calculations. Where underlying assumptions play an important role in the calculations, we performed reconciliations with underlying source documentations, such as sub administrations, external reports and research results. For those areas where management applied estimates or future oriented information in assumptions or calculations, we gathered information about underlying data. Based on our procedures, we gained insight in the methods used by management and the estimates applied, as well as how management disclosed this in the Annual Report.</p>

Work done

We are required to plan and perform our audit and review in order to be able to provide reasonable and limited assurance that no material misstatements exist in the Annual Report 2015.

Review procedures

Our main review procedures included the following:

- performing an external environment analysis and obtaining an understanding of the relevant social issues, relevant laws and regulations and the characteristics of the organisation;
- evaluating the acceptability of the reporting policies and consistent application of this, such as assessment of the outcomes of the stakeholder dialogue and the process for determining the material subjects, the reasonableness of estimates made by management, as well as evaluating the overall presentation of the Annual Report;
- evaluating the design and implementation and testing the operating effectiveness of the systems and processes for data gathering and processing of information as presented in the Annual Report 2015;
- interviewing relevant staff responsible for providing the information for the Annual Report 2015, carrying out internal control procedures on the data and the consolidation of the data in the Annual Report 2015;
- reviewing relevant internal and external documentation, on a sample basis, to determine the reliability of the information in the Annual Report 2015;
- analytical review of the data and trends;
- evaluating internal and external documentation to assess whether information in the Annual Report 2015 is substantiated adequately;
- assessing the consistency of the sustainability information and the information in the Annual Report 2015 not in scope for this Assurance Report;
- assessing whether the sustainability information has been prepared 'in accordance' with the Sustainability Reporting Guidelines version G4 of GRI.

Audit procedures

In addition to the procedures mentioned above, for the information in audit scope we performed the following audit procedures:

- assessing the systems and processes for data gathering, including testing the design, existence and the effectiveness of the relevant internal controls during the reporting year;
- conducting analytical procedures and substantive testing procedures on the relevant data;
- assessing the processing of other information, such as the aggregation process of data to the information as presented in the sustainability information; and
- corroborating internal and external documentation to determine whether the sustainability information is substantiated adequately.

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our opinion and conclusion.

Responsibilities

The Board of Management's responsibilities

The Board of Management of Alliander N.V. is responsible for the preparation of the responsibility reporting sections in accordance with the Alliander N.V. reporting criteria, including the identification of the stakeholders and the determination of material subjects. Furthermore, the Board of Management is responsible for such internal control as necessary to enable the preparation of the Annual Report 2015, which is free from material misstatement, whether due to fraud or error.

Our responsibilities

Based on our assurance engagement in accordance with Standard 3810N, our responsibility is to:

- express a conclusion about the sustainability information
- express an opinion on the 'Results 2015' within the chapter 'Objectives & results' and the materiality assessment on page 203-207 in the chapter 'Materiality test'.

This requires that we comply with ethical requirements and that we plan and perform our work to obtain a combination of limited and reasonable assurance about whether the Annual Report 2015 is free from material misstatement.

The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of Annual Report 2015, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant for the preparation of the Annual Report in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organisation's internal control. An assurance engagement aimed on providing limited and reasonable assurance also includes evaluating the appropriateness of the reporting framework used and the reasonableness of estimates made by management as well as evaluating the overall presentation of the Annual Report 2015.

Amsterdam, 23 February 2016

PricewaterhouseCoopers Accountants N.V.

Original Dutch version signed by:

drs. R. Dekkers RA

Opinion of the Alliander stakeholder panel

To the reader of this report,

The stakeholder panel is delighted with Alliander's invitation to provide feedback on the Annual Report 2015. This summary of our feedback is presented in a spirit of encouragement in order to help Alliander bring its report even more into line with the needs of its stakeholders.

Several years ago Alliander decided to structure the Annual Report according to the information requirements of its various stakeholders: customers, employees and shareholders & investors. This is an approach we applaud. We also note the external recognition that the report has received in e.g. the Transparency Benchmark, and acknowledge the major steps Alliander has taken towards integrating non-financial and financial information in the report. We endorse the route that Alliander is taking in putting sustainability at the heart of the report. It is also good to see that Alliander is increasingly embracing the circular economy and monetisation of its impact, while also continuing to refine its value creation process and align its activities with the materiality matrix. To help Alliander make further steps forward, we have the following suggestions.

More ambition

Thanks to its unique position in the supply chain, Alliander is well positioned to connect parties and coordinate their joint efforts to bring about the energy transition and a sustainable Netherlands. This ambition is clearly manifest in the objectives that Alliander sets itself and the examples given by Alliander in this report. Nevertheless, we still feel that this forward-looking vision is insufficiently reflected in the report. As a Panel, we would welcome more long-term objectives and an implementation plan for their achievement. We understand from our talks with Alliander that this poses a dilemma. Alliander is keen to express its ambition but, as a semi-public organisation, also wants to stay close to its formal role in the energy sector. Whilst acknowledging this dilemma, we challenge Alliander to show more ambition. More specifically, we believe that, as an influential player, Alliander could do more to achieve additional gains in the value chain.

Stronger cohesion between strategy, objectives and results

The report is closely aligned with the materiality analysis and is structured around the most important stakeholder groups. This approach makes it rather difficult to assess Alliander's actual results versus the 2015 year plan and to ascertain how the material subjects are related to objectives and results.

A clear central theme - running from trends via strategy to indicators - would give the report added force and focus and forge a link between the long-term objectives, the results in recent years and the year plans for 2015 and 2016. More clear examples of concrete investments and demonstrable improvements for the benefit of customers would further enhance the report.

Going forward, it is necessary to closely watch the numerous energy transition initiatives that are being started up in the sector and the chain and to organise, intensify and stimulate constructive dialogues and partnerships with external partners.

Transparency about remuneration

Remuneration in the public and semi-public sector is a topical social issue. Some of Alliander's employees (namely the employees of Liander) come under the Executives' Pay (Standards) Act (Wet normering topinkomens - WNT). We appreciate that we have been given the opportunity to express our concerns about the current remuneration level and that Alliander is nevertheless implementing the WNT1 on an organisation-wide basis within the legal timeframes. We urge Alliander to provide full transparency about this issue in its annual report.

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.

Jan Bijker - Chairman of the Underground Networks and Groundwater Management Section of Bouwend Nederland.

Giuseppe van der Helm - former Director of the Association of Investors for Sustainable Development in the Netherlands & member of the Panel of Experts of the Transparency benchmark

Marleen Janssen van Groesbeek - Lecturer in Sustainable Finance at Avans University of Applied Sciences and expert in sustainability reporting

This is the first year that Alliander installed a stakeholder panel to give feedback on the draft version of its Annual Report. The stakeholder panel marks a new step in our ambition to continue working on the further development of our structural stakeholder dialogue in the coming years. We shared a draft version of the Annual Report 2015 with the panel members. The panel members sent us their input in a written reaction, which was then discussed in more detail at a lunchtime meeting in our new circular building at Duiven on 13 January 2016. This meeting was also attended by our CFO Mark van Lieshout. The feedback was used to improve the current report and will help us make further refinements in the future. The stakeholder panel is independent.

Perhaps you too would like to have your say about the annual report or the themes facing Alliander. If so, we are open to dialogue and also regularly organise roundtable sessions with our stakeholders. Please contact us at communicatie@alliander.com.

Materiality test

Each year, Alliander determines in a structured manner the topics 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. This assessment is twofold, with an external focus on the relevance of the themes from the diverse perspectives of these stakeholder groups and an internal focus on the impact of these themes on the company.

The relevance from the stakeholder perspective was determined by means of a digital questionnaire that was presented to a representative cross-section of each stakeholder group. The nature and scale of the impact of each of the selected themes for Alliander and its stakeholders was then gauged. The materiality score from the previous reporting year was taken on board in the weighting. The outcomes from both the roundtable sessions with stakeholders and the stakeholder survey were discussed with the Management Board. It was concluded, among other things, that the topics stakeholders had identified as important largely corresponded with the key themes that Alliander is pursuing. One emerging trend is the growing significance of the energy transition. Alliander is currently working on various existing and new initiatives as part of this theme. These initiatives are also covered in this annual report. The fifteen most relevant themes served as the 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



Step 1: Identification of relevant aspects and themes

The first step consisted of drawing up a list of socially significant themes that are relevant to the organisation. The guideline here was the list of aspects as contained in the GRI G-4 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.

Stakeholder relevance

Based on a digital survey, the stakeholders assessed the socially significant themes on relevance. This stakeholder input led to the selection of the fifteen most relevant themes.

The results of the survey were classified according to stakeholder group. The stakeholder groups closest to the organisation (customers, employees and shareholders) were given a weighting of 2, while the other stakeholder groups (suppliers, knowledge institutions, public authorities and investors) were given a weighting of 1. The results of this digital survey were given added substance and colour during stakeholder dialogues with a group of stakeholder representatives. The result was an overview in which the most relevant themes from the stakeholder perspective are prioritised.

Impact for Alliander

Next, we determined the indicative impact of the fifteen most relevant themes on the organisation. 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;
- Positive impact: how great is the impact on Alliander if the organisation performs well on the theme;
- 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 2014

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

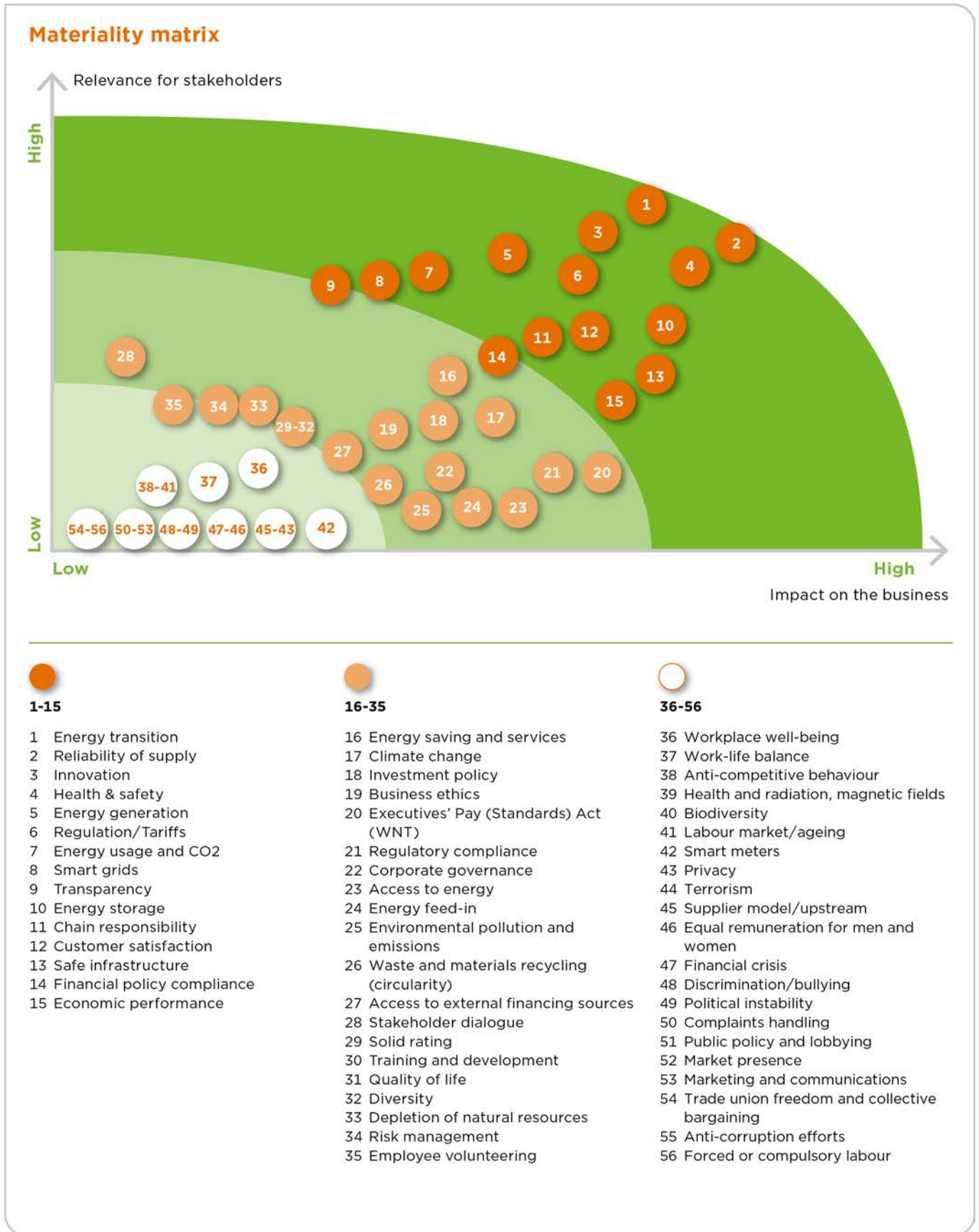
High-materiality themes have been matched with the corresponding effects in the GRI guidelines. This overview is the yardstick for the composition of the accountability information in this annual report.

GRI aspect	Alliander Theme	Description	Reference Chapter
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.	Employees
	Safe infrastructure	Gas and electricity can cause risks. The safety of everyone involved is our highest priority. Incidents in the gas network and with grey cast-iron gas pipes re-emphasise the importance of our focus on safety.	Customers
Product and Service	Regulation / tariff-setting	The network operator's cost level in relation to that of the sector forms the basis for the tariffs permitted by the Netherlands Authority for Consumers & Markets. This gives network operators scope, within certain margins, to set their own tariffs. After several years of tariff increases, a reduction is now being enforced. This has an impact on the available financial scope, including for investments.	Customers
	Customer satisfaction	Customers count on excellent service, communication and handling of interruptions and complaints. To what extent should we make customer satisfaction an operational priority?	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. How do we set up our capacity planning to ensure that the expansion and replacement of networks and installations is properly aligned with the needs of our customers and society?	Customers
Energy	Energy transition	The transition from fossil to renewable energy generation such as solar, wind or tide is one of the biggest societal challenges of today. What role can or should Alliander play in accelerating or facilitating this transition?	Customers
	Energy storage	A growing number of people are generating their own energy. Surplus production can be fed into the network, but local energy storage is a potential link in a renewable energy supply and is developing rapidly.	Customers
	Smart networks	The energy infrastructure for matching changes in energy supply, market relations and the changing energy demand efficiently and safely.	Customers
	Role in energy generation	Renewable energy generation is increasingly becoming a matter for consumers and businesses. Network operators face many questions, such as to what extent should they prioritise renewable energy feed-in or generate their own renewable energy to help accelerate the energy transition.	Shareholders and investors

Emissions	Energy usage and CO ₂	Alliander uses a lot of energy. The reduction of its own energy consumption in the networks, but also in the buildings and mobility is an important part of its commitment to make its operations sustainable and to help make the Netherlands more energy-efficient.	Shareholders and investors
Supplier responsibility	Supply chain responsibility	Outsourcing, investments and production in other countries sometimes leads 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. In the Netherlands, too, a 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.	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
Economic performance	Economic performance	What contribution does Alliander make to its stakeholders by means of revenues, employee remuneration, donations and other social investments. How do we deal with retained earnings and payments to lenders and authorities?	Shareholders and investors
	Financial policy compliance	Alliander's financial policy is aimed at achieving a balance between adequate shareholder returns and the protection of bondholders and other providers of debt capital while preserving the flexibility to invest and grow.	Shareholders and investors
	Innovation	In view of the changing energy landscape and to be prepared for future developments, 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.	Customers

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.



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.

Interaction with stakeholders

In dialogue 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 with stakeholders and centenary

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. To mark our 100th anniversary, we organised various dialogues, notably during our temporary pop-up museum in Radio Kootwijk. This provided an inspiring setting for an extensive dialogue with our customers and stakeholders. The Management Board was also an active participant in this lively exchange of views.

Interaction with stakeholders

Stakeholder	Organisation or platform	Type of interaction	Items for discussion	Reference
Customers - consumer	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 (various forms)	Collaboration, relationship management, dialogue and improved services	Customers
Customers - business	Trade associations	Dialogue / relationship management (various forms)	Collaboration, dialogue / relationship management and improved service	Customers
Employees	Employee survey Employee representation Young employee network - Tension Female employee network - Lianne GBLT network - Pride Staff Association WENb employers' association	Quantitative survey (quarterly) Formal consultation (monthly) Dialogue / workshops / meetings Ditto Ditto Employee association	Participation, dialogue and employee engagement	Employees
Shareholders and investors	Provinces and municipalities	General Meeting of Shareholders 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 consultations and reports on financial performance (periodic)	Accountability and commentary	Financial
Authorities	Central government and European Union	Consultation, discussions, exchange of views (projects, ad hoc)	Expression of interests and (pro-) active dialogue	Shareholders and investors
	Provinces and municipalities	Consultation, collaboration and projects (projects, ad hoc)	Alignment of climate and environmental plans and projects	Shareholders and investors
Politics	Both houses of Dutch parliament, ministries	Relationship management Working visits Pro-active and reactive provision of information Two-yearly qualitative survey	Provision of information in general sense and on topical issues	All stakeholders
Regulators	Netherlands Authority for Consumers & Markets	Periodic meetings on current topics and issues Standard and ad hoc requests for information	Inform, exchange and explain	Customers
	State Supervision of Mines Dutch Safety Board	Periodic meetings on current topics and issues Standard and ad hoc requests for information	Inform, exchange, and explain	Customers

Energy sector	Cedec Energy producers/suppliers Energy Storage Netherlands European Distribution System Operators for electricity (Edso) Eurelectric Eurogas ENCS IGU Flexible power Alliance Network (FAN) Hier opgewekt Netbeheer Nederland Nedu ODE-Decentraal European Energy-Information Sharing & Analysis Centre Foundation Rural Energy Services (FRES) Global Gas Network Initiative (GGNI) Global Intelligent Utility Network Coalition Smart Energy Collective Stichting de Energiebank	Board membership (monthly) Working groups (monthly) Stichting E-laad (continuous)	Knowledge exchange, partnerships, representation of interests, cooperation	Customers
Suppliers	Contractors and industry Suppliers of goods and services	Contractors' day (once a year) Suppliers' days Theme-based consultations SRP consultations	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	Media	Relationship management Proactive information provision Crisis communications Qualitative survey (every two years)	Information, positioning	All stakeholders
Civil society organisations	Natuur en Milieu Nudge Stichting de Opkikker Nederland Cares Klimaatverbond Nederland Milieu Centraal	Consultation and dialogue about project design, volunteer work (projects, ad hoc)	Facilitate renewable energy supply	Customers
	Housing associations, developers and businesses	Discussions, participation in associations and foundations (frequent)	Participation, dialogue and relationship management	Customers
Partner relationships	Global Reporting Initiative Groene Zaak Kenniskring Amsterdam MVO Nederland Open compliance and ethics group The Open Global Data Management Community Urgenda Vereniging Eigen Huis Vereniging Nederlandse Gemeenten World Economic Forum	Board membership, meetings, sponsoring (periodic)	Collaboration with knowledge institutions, businesses and authorities, sustainability promotion	Customers

Stakeholder information and the annual report

Social trends and stakeholder dialogues form the basis for the identification of the most important themes we report on. In 2015, we entered into a dialogue about this with our stakeholders.

In addition, we requested our stakeholders to indicate the themes they wanted us to address in this report. Our stakeholders assessed the impact of social and other themes for the organisation in a materiality test. Based on this input, the fifteen most relevant and high-impact topics as perceived by our stakeholders were grouped according to priority.

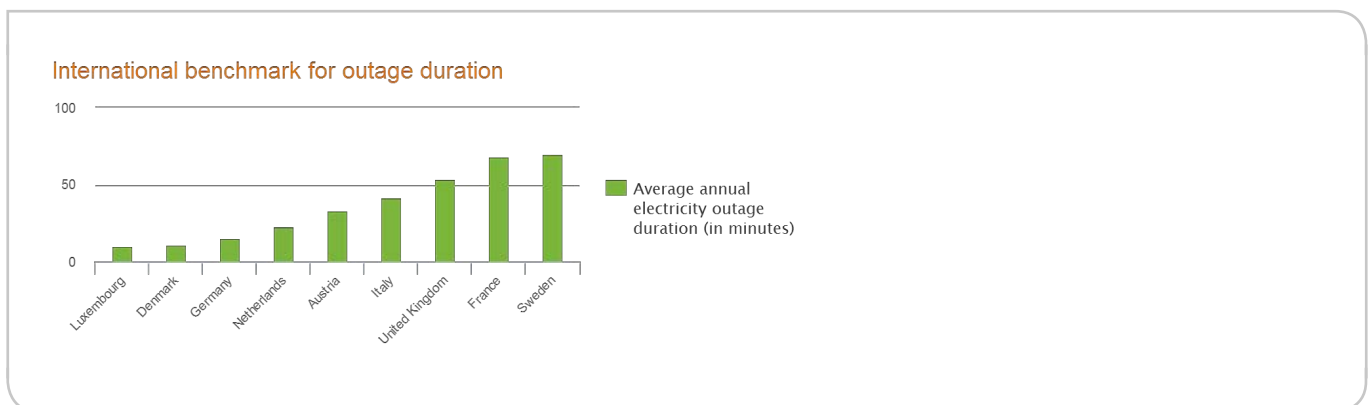
Stakeholders tend to select themes that have a bearing on our operational activities, such as safe working conditions and security of supply. They also opt for themes that enable Alliander to distinguish itself in the future, such as the energy transition, energy saving and innovation. These outcomes were discussed in the Management Board, which concluded that the issues raised by the stakeholders are largely consistent with the efforts Alliander is undertaking on behalf of its stakeholders.

Performance benchmark

We look critically at our own performance and we benchmark it against that of other companies, both in and outside the energy sector. We do so mainly to learn and identify promising opportunities. Some benchmark data are explained below.

Benchmark within the energy sector

- Outage duration**
 Our networks are highly reliable. The electricity outage duration at Liander averaged 21.9 minutes in 2015, which was higher than the national average of 20 minutes in 2014. In 2015, the average gas outage duration for customers in the Liander service area was over 4 minutes, which was higher than the national average in of 3 minutes and 14 seconds in 2014.



- Customer satisfaction**
 As regards our services to consumers, customer satisfaction was above the benchmark (103%). Our customer satisfaction score for large business customers was below the benchmark (95%).

National benchmark

- Absenteeism**
 Absenteeism at Alliander came to 3.8% in 2015 (2014:3.8%). Average absenteeism in the Netherlands was 3.8% in 2014. Within our sector, we see comparable figures for 2014 at Enexis (4.2%) and Stedin (4.2%).
- Transparency**
 Alliander also takes part in the annual Transparency Benchmark, which the Ministry of Economic Affairs conducts among 500 companies. This benchmark indicates how transparent companies are in their reporting. In 2015, Alliander ended in 9th place (2014: 15th) and was the highest-placed company in the energy sector.
- Great Place to Work**
 Alliander has the ambition to be a top-class employer for its current and future employees, so that their expertise can be retained for the company on a permanent basis. Only an objective assessment can really tell us whether Alliander is a top-class employer, which is why we take part in Great Place to Work – an employer survey in which tens of Dutch companies participate every year. Based on last year's measurement, Alliander failed to earn a place on the Best Workplaces 2015 list.

SWOT analysis

Where are our opportunities and challenges?



Strengths

- Satisfied customers
- High reliability of energy supply
- Good technical expertise of employees
- Good employment practices
- Solid financial position
- Sustainable partner

Weaknesses

- Limited opportunities for increases in scale
- High CO₂-emissions related to energy transportation
- Limited speed of adaptability of business processes
- Less than optimal efficiency in operations



Opportunities

- Investment in telecom and digitalisation
- Partnerships with municipalities and energy cooperatives
- Investment in new markets and start-ups, such as sustainable area development, electric mobility and sustainable housing

Threats

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



Notes to scope 3 supply chain emissions

We endorse the importance of supply chain responsibility. This includes the need to provide maximum transparency on developments at our suppliers. For this reason, we have calculated our supply chain emissions for more categories in 2015. The scope 3 emissions are given below.

	2015	2014
Contracting	12,946	10,553
Components	51,119	45,041
ICT	16,644	14,779
Waste	3,723	4,136
Hiring	1,274	1,279
Business services	16,388	18,331
Mobility	21,237	20,675
Participations	2,965	3,052
Total supply chain emissions	126,296	117,846

Our total supply chain emissions were just over 126,000 tonnes.

The calculation was performed, making use of readily accessible data sources. This means that we look at our expenditures and consumption per product or service group, multiplied by internationally accepted CO₂ coefficients per group. These are supplemented with specific CO₂ data of our contractors (CO₂ performance ladder). The scope 3 emissions for 2014 and 2015 are exclusive of Endinet. In the coming year we will strive to provide further transparency on the supply chain emissions and will report on these emissions on an ongoing basis.

Five-year summary

€ million	2015	2014	2013	2012	2011
Result					
Revenue	1.586	1.594	1.744	1.674	1.586
Total income	1.680	1.729	-1.389	1.772	1.695
Total operating expenses	-1.341	-1.245	-1.389	-1.378	-1.297
Operating profit	339	484	390	394	398
Profit after tax	235	323	-94	224	251
Balance sheet					
Net working capital	-211	-172	-94	-96	-112
Property, plant and equipment	5.899	6.218	6.012	5.821	5.575
Total assets	7.726	7.672	3.375	7.414	7.318
Equity	3.687	3.579	1.895	3.203	3.079
Total interest-bearing debt	1.668	1.775	1.895	1.896	1.931
Total financing	5.355	5.354	5.270	5.099	5.010
Capital expenditure on non-current assets	575	572	576	583	479
Cash flows					
Cash flow from operating activities	513	623	683	545	557 ¹
Cash flow from investing activities	-492	-410	-493	-498	-398
Cash flow from financing activities	-99	-201	-135	-53	-5541
Free cash flow	21	213	190	47	1591
Ratios					
Non-current interest-bearing debt as % of total interest-bearing debt	72%	91%	85%	100%	74%
ROIC	4,9%	6,3%	7,6%	6,9%	7,2%
FFO/Net debt	28,1%	34,0%	38,7%	30,9%	34,1%
Interest cover	7,6	7,6	5,1	6,0	5,8
Equity as % of total assets less deferred income (solvency)	55,7%	53,6%	51,1%	49,5%	47,5%
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)	3.100	3.078	3.063	3.087	3.057
New connections (x 1,000)	31	26	29	31	36
Cables laid (km)	918	816	904	1.160	1.167
- Gas					
Active connections as at 31 December (x 1,000)	2.671	2.658	2.649	2.644	2.630
New connections (x 1,000)	19	18	20	22	23
Mains laid (km)	159	136	160	196	206
- Volumes transported					
Electricity (GWh)	29.882	29.936	30.314	30.522	30.576
Gas (million m ³)	6.012	6.115	7.790	7.461	7.039
- Other					
Number of disconnections (consumer and business market)	9.465	10.310	12.742	12.364	12.134
Facilitated supplier switches (x 1,000)	956	929	930	781	744
Annual electricity outage Liander (minutes)	21,9	19,9	24,0	24,5	20,0
Average number of permanent staff (fte)	5.411	5.908	5.878	5.675	5.430

1. The figures for 2011 have been restated in connection with a change in presentation to include the premium paid in connection with the early redemption of bonds in the cash flow from financing activities.

Definitions and abbreviations

abp	Pension fund for employees in the Dutch government, public and education sectors
bar	Unit of pressure still used for gas
cao	Collective Labour Agreement
cds	Credit default swap
ceo	Chief Executive Officer
cfo	Chief Financial Officer
chp	Combined Heat Power
cor	Central Works Council
csr	Corporate Social Responsibility
e-atlas	Energy Atlas
ebit	Earnings Before Interest and Taxes
ecp	Euro Commercial Paper
edsn	Energie Data Services Nederland
emtn	Euro Medium Term Notes
eu	European Union
ffo	Funds From Operations
fifo	First in, first out
fte	Full time equivalent
gj	Gigajoule; i.e. 1,000 MJ. 1 GJ is the equivalent of approximately 29 m ³ gas or 278 kWh
gprs	General Packet Radio Service
gw	Gigawatt; i.e. 1,000 MW
gwh	Gigawatt-hour; i.e. 1,000 MWh
hr	high efficiency
hv	High-Voltage
ias	International Accounting Standards
iasb	International Accounting Standards Board
ict	Information and communication technology
ifric	IFRIC Interpretations Committee
ifrs	International Financial Reporting Standards
iso	International Standard Organisation
j	Joule, the SI unit of energy
kcd	Quality and Capacity Document
kj	Kilojoule; i.e. 1,000 J
kpi	Key performance indicator
Kilovolt; i.e. 1,000 V	
kw	Kilowatt; i.e. 1,000 W
kwh	Kilowatt hour
lilo	Lease in, lease out
lv	Low-Voltage
mj	Megajoule; i.e. 1,000 kJ
mv	Medium-Voltage
mva	Megavolt-ampère
mw	Megawatt; i.e. 1,000 kW
mwh	Megawatt hour; i.e. 1,000 kWh
niat	Net Income After Taxes
ovv	Dutch Safety Board
roic	Return on Invested Capital
silo	Sale in, lease out
ssm	State Supervision of Mines
tj	Terajoule; i.e. 1,000 GJ
twh	Terawatt hour; i.e. 1,000 GWh
us	United States
usd	United States Dollar
viag	Gas Safety Instruction
w	Watt; SI unit of power

wacc	Weighted Average Cost of Capital
wia	Work and Income according to Labour Capacity Act (Wet werk en inkomen naar arbeidsvermogen)
wnt	Executives' Pay (Standards) Act (Wet normering topinkomens)
won	Independent Network Operation Act (Wet onafhankelijk netbeheer)
ww	Unemployment Act (Werkloosheidswet)

February 2016

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Publication Alliander N.V.

Disclaimer

This report is a translation of the Dutch annual report 2015 of Alliander N.V.. Although this translation has been prepared with the utmost care, misinterpretations or deviations as a result of the translation process from the Dutch annual 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 annual report 2015 will prevail.

