Switch together

Annual Report 2016

alliander

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About this report

About this report

The Alliander Annual Report 2016, as published on 9 March 2017, provides an account of our activities in 2016. Key to our integrated reporting are an open dialogue with stakeholders, transparency and the impact of our activities on society.

Structure of the report

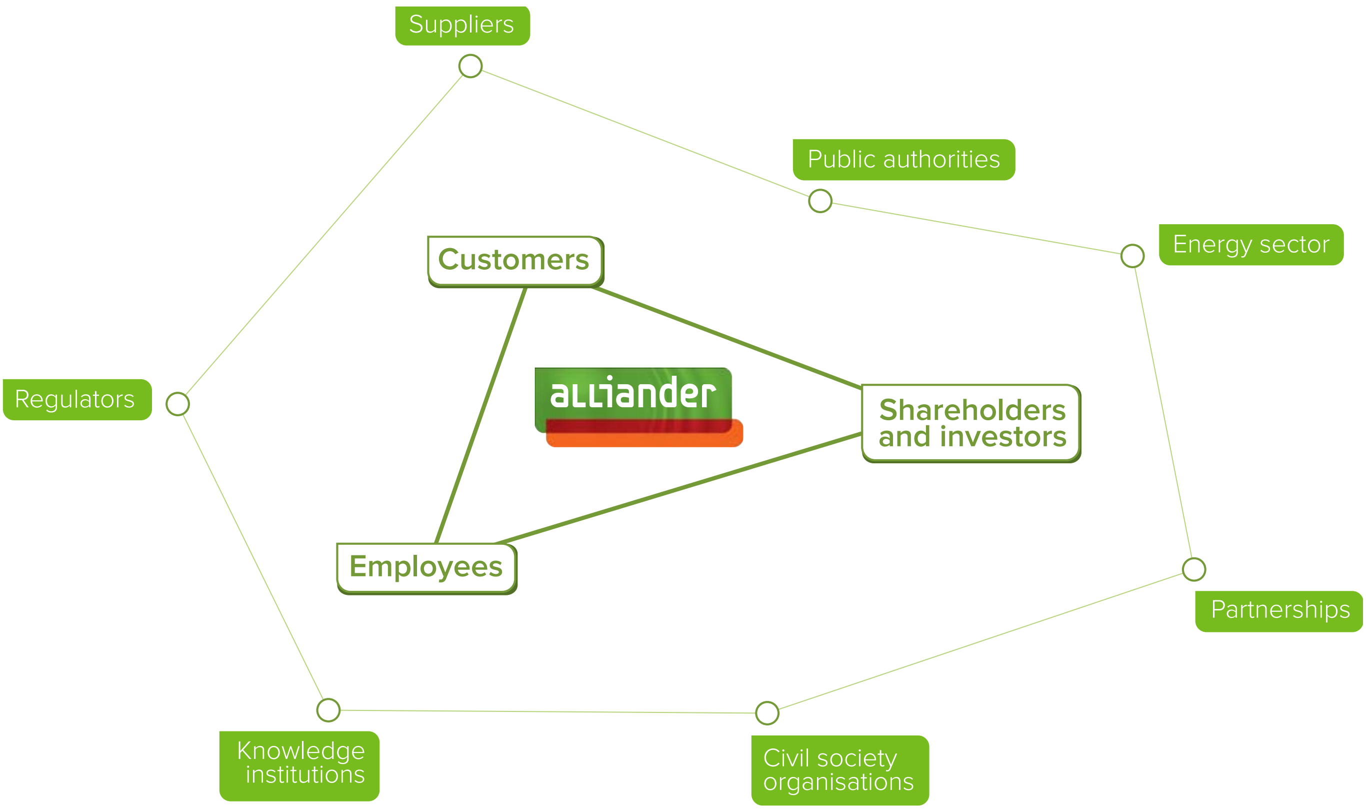
The 2016 annual report is largely structured according to our largest stakeholder groups. This approach corresponds with Alliander's governance model, which is geared to these groups:

- Customers
- Employees
- Shareholders and investors

Stakeholder dialogue is the basis

We maintain an ongoing dialogue with our stakeholders: customers, employees, shareholders, public authorities, investors and others. In 2016, we intensified our relationship with municipalities. These contacts enable us to obtain and retain insight into trends in society and what society expects of Alliander. We also exchange thoughts and ideas with our stakeholders, and seek feedback on proposed policy choices and decisions.

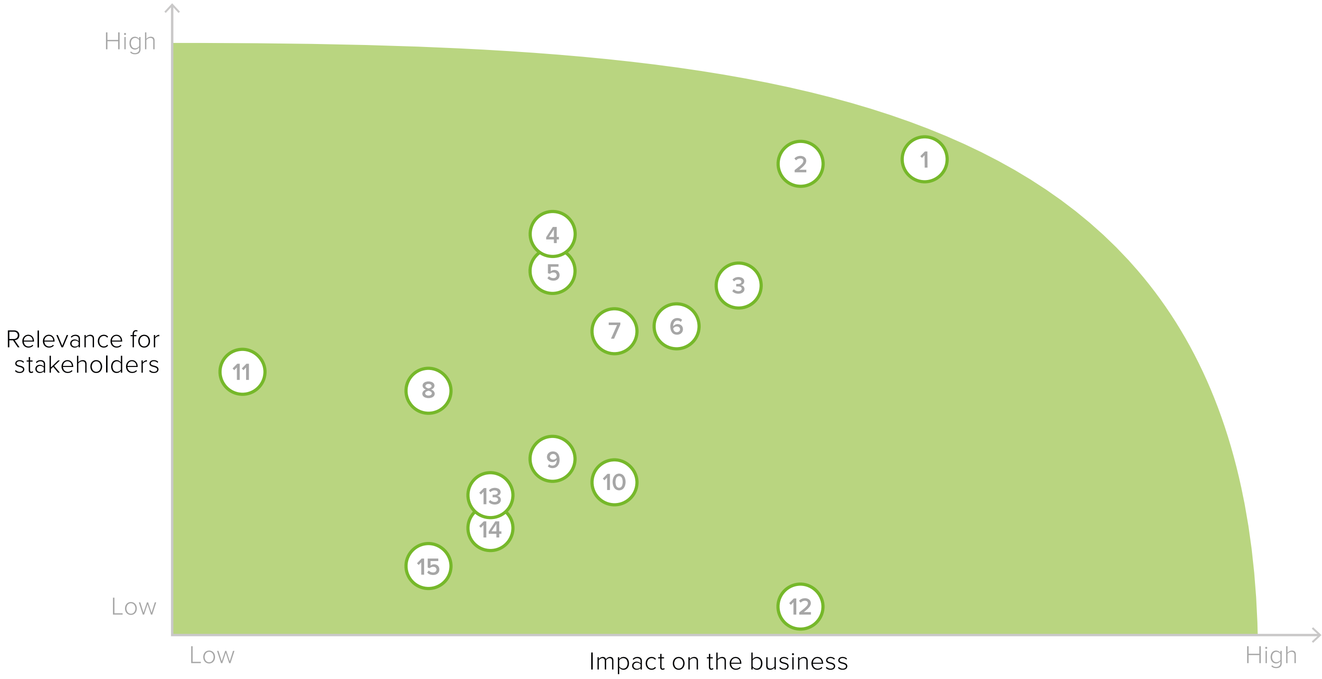
Stakeholders



Materiality

We asked our stakeholders to tell us what aspects they considered important for inclusion in the annual report. Based on the outcomes, we selected 15 top themes, which form the basis of the annual report. To find out how these themes are linked to, for instance, Alliander's strategy, simply click online on the theme you are interested in. You will then receive an explanation of the relevant aspect, its relationship with our strategy and the results achieved in 2016. For the complete materiality chart including all the themes, please see Other information.

Materiality Chart



1 Reliability of supply
2 Energy transition
3 Health & safety
4 Innovation
5 Energy generation
6 Smart grids
7 Regulation / Tariffs
8 Energy usage and CO2
9 Economic performance
10 Safe infrastructure
11 Transparency
12 Training and development
13 Customer satisfaction
14 Chain responsibility
15 Investment policy

Integrated reporting

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

- Relevant provisions in the Dutch Civil Code
- International Financial Reporting Standards (IFRS)
- Dutch Corporate Governance Code
- GRI 4 reporting guidelines ('comprehensive' option), Electric Utilities Sector Supplement
- International Integrated Reporting Council (IIRC)

The financial and non-financial information in the report has been consolidated for Alliander and its major subsidiaries (Liander, Liandon, Allego, Alliander DGO and Kenter). Where information is not consolidated, this is explicitly stated. The report also includes information of other Alliander business units whose activities are mainly dedicated to the energy transition. The materiality analysis was leading in the information-gathering process.

Transparency

Our company operates within the complex dynamics of an energy sector that is undergoing radical transformation. That is why our stakeholders attach great value to transparency. And so do we. As testimony to this commitment, our annual report for 2015 won the Crystal Prize, the top honour of the Transparency Benchmark of the Dutch Ministry of Economic Affairs, as well as the FD Henri Sijthoff Award of the Dutch financial daily Het Financieele Dagblad. Our ambition is to remain a leader in transparent reporting. As such we comply with the Transparency Guideline and the relevant provisions in the Dutch Corporate Governance Code and the Decree on Corporate Governance 2009. In addition, this report adheres to Application Level 4 of the GRI sustainability reporting guidelines.

Stakeholder Panel

In keeping with last year, a stakeholder panel read draft versions of the report and provided valuable feedback. In addition, during a joint session with a panel of stakeholders on 25 January, a dialogue was conducted about important issues, including the steps that Alliander needs to make in the coming years in terms of impact measurement and Sustainable Development Goals. The full reflection of the stakeholder panel is included in the report.

Stakeholder involvement in Alliander Annual Report

Sustainable Development Goals (SDGs)

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

Our story in 2016

Our story in 2016

In 2016, our company was actively engaged in the development of the energy supply for today and tomorrow. We replaced and upgraded infrastructure, prevented and remedied outages, and constructed new networks. Together with our stakeholders we are addressing the challenges of the energy transition. We are making the transition together.

Safety first

In the first half of the year, a tragic incident had a huge impact. On Friday morning, 26 February, a colleague of Liandon suffered a fatal accident while working on a high-voltage installation at one of our substations. This event deeply affected everyone within the company and a lot of time was devoted to assisting the family and immediate colleagues. We investigated what had happened and how this type of incident could be avoided in the future. This accident served as are a reminder of the risks we are exposed to during our daily work. Ensuring that everyone returns home safely every day remains a key ambition.

Increased demand for new connections

The economy gathered further momentum in 2016. More homes and businesses were built, spurring demand for new connections. We also worked hard to keep the existing energy network reliable and safe by investing in replacement and maintenance. Another major ongoing activity concerns the roll-out of the smart meter in our service area. All in all, there was more work to do than we could handle. Difficult choices needed to be made, and priorities set. Connecting customers and mitigating safety risks always come first, and this sometimes led to delays in the roll-out of our digitisation projects. However, as everyone put their shoulder to the wheel, we as an organisation managed to get through a vast workload, also thanks to our contractors. Our employees deserve a big compliment for all their efforts in 2016. And also right at the start of 2017, when a major gas outage occurred in Ede: a pipe breakage caused water to enter the gas mains, depriving about 500 households of gas for several days. Over 150 employees worked around the clock to reconnect everyone to the gas supply as soon as possible.

Results of our strategy

The 2015 Paris climate agreement has galvanised the thinking about changing the energy system. Our stakeholders are already making plans to become climate neutral and switch over to renewable local energy. The number of customers using decentralised energy thus continues to grow. With this in mind, we launched a clear four-pillar strategy last year. The initial results are already becoming visible. First of all, we want to give customers choices that are not just good for them, but for the energy system as a whole. Opportunities to store and share energy is one example. Together with 200 households and companies such as IBM and Essent, we trialled a flexible energy market in the municipality of Heerhugowaard.
Secondly, we are working on sustainable open networks with equal access for everyone. One unique project in this connection is the world's first-ever public direct current network that Alliander is developing for a business park in Lelystad.

Digitisation is Alliander's third strategic pillar. Smarter infrastructure enables us to resolve outages faster and target our investments more effectively. In 2016, smart meters were offered to 428,000 addresses. In the province of Gelderland we embarked on the roll-out of a new intelligent network, which can be more effectively controlled at a distance with sensors and communication devices. Despite all these efforts, a lot of work remains to be done in the field of digitisation. We had set ambitious targets for the year under review, precisely because we recognised the crucial importance of digitisation. One target was to complete 95% of the digitisation projects scheduled for 2016, but we only achieved 8%. This was mainly due to the complexity and amount of work was more intense than previously estimated. Among others, the program was put stop by technical flaws in a new digital application on our stations. More time is needed to fully realize the projects.
Our final strategic aim is to achieve operational excellence. The introduction of the operational control method has been completed for all teams within Liander and improvements to the planning process are under way.

A tour of 160 municipalities

The energy transition demands a continuous dialogue with our stakeholders. Intensive collaboration between municipalities and network operators is crucial to realise the energy transition in time and at the lowest social costs. That is why we, as the Management Board, started in the year under review to visit all of the 160 municipalities in our service area. The purpose of this tour is to explain the company's strategy in more detail and to exchange ideas. These conversations are lively and provide a good opportunity to discuss how we can best work together to bring about the transition to a sustainable future.
One major dilemma last year was the future of the gas network. Should we continue investing in gas networks, even though we know that fossil gas is finite? This is one of our main dilemmas and was also a major topic of debate during our tour.
Another important event at the end of 2016 was the publication of the government's Energy Agenda. In this agenda, network operators, alongside municipalities and provinces, are assigned an important role in deciding on the preferred spatial heating technology and energy infrastructure investments. This proposal enables us to make the correct choices from a sustainability and social cost perspective as we progress towards the energy system of the future.

New activities

In addition to our day-to-day network management, we also undertake activities in the public interest that contribute towards the reliability, affordability and accessibility of our energy system of the future. Some of these business activities are advancing with great strides, notably at Allego (e-vehicle charging infrastructure) and Alliander Duurzame Gebiedsontwikkeling (e.g. heating networks). These successes reaffirm our commitment to finding suitable answers to the complex issues arising from the energy transition. It is therefore unfortunate that the Progress of the Energy Transition Bill (Voortgang Energietransitie / VEt) that the Ministry of Economic Affairs presented to the Dutch House of Representatives late in 2016 seeks to restrict the role allotted to network operators in the energy transition. Alliander sees the proposed legislation as counterproductive. We advocate a more integrated approach centring on an energy transition that puts the public interest first.

Social results

We achieved some commendable social results in the past year. We worked include the development of options to adapt the grid for the supply of sustainably produced energy, such as wind and solar power. And we are working together with a number of other parties on a test with local storage in the form of a neighborhood battery. In addition, our CO_2 footprint decreased significantly and was Board member Ingrid Thijssen named top woman of the year. Alliander was well represented in the sustainable top 100 and the 2015 annual report was rewarded with both the FD Henri Sijthoff prize and the Crystal Price. We were also pleasantly surprised by the tremendous interest shown in our new 'circular economy' office building at Duiven. The building turned out to be a great public attraction, drawing large numbers of visitors from inside and outside the organisation. The renovation of the Bellevue head office in Arnhem was completed late in 2016, marking a further step in our drive towards making our own buildings more sustainable. Also noteworthy was the 10th anniversary of both the Alliander Foundation, which encourages our staff to do voluntary work for the benefit of society, and the Step2Work programme, which offers job opportunities to people at a distance from the labour market. Finally, Alliander issued its first-ever green bond. This is a bond loan where the entire proceeds must be used to finance sustainability initiatives.

Financial results

Alliander's net profit amounted to € 282 million (2015: € 235 million). The increase was mainly attributable to the sale of Endinet, which was completed in 2016. Total operating expenses rose to € 1,516 million (2015: € 1,341 million). This increase was largely caused by the higher sufferance tax, which jumped from € 110 million to € 149 million. Our financial position remained solid in 2016, as is reflected in the affirmation of our S&P and Moody's credit A-ratings.

Outlook

The energy transition is gathering pace and the economy is also accelerating. The amount of work to our networks is therefore expected to continue increasing in the coming year. Moreover, we need to make energy transition plans with 160 municipalities. The challenge here is to find sufficient technically skilled colleagues in a tight labour market. We must come up with creative solutions to continue performing the required work to the highest standards. Fortunately, doing smart things is in our DNA. Our employees play a pivotal role in the uninterrupted distribution of energy. It is a special privilege for us to see them putting their heart and soul into their work every day. We are extremely grateful for their commitment.

Together, we are making the transition to the new energy system.

Peter Molengraaf, Ingrid Thijssen, Mark van Lieshout
Management Board of Alliander

About Alliander

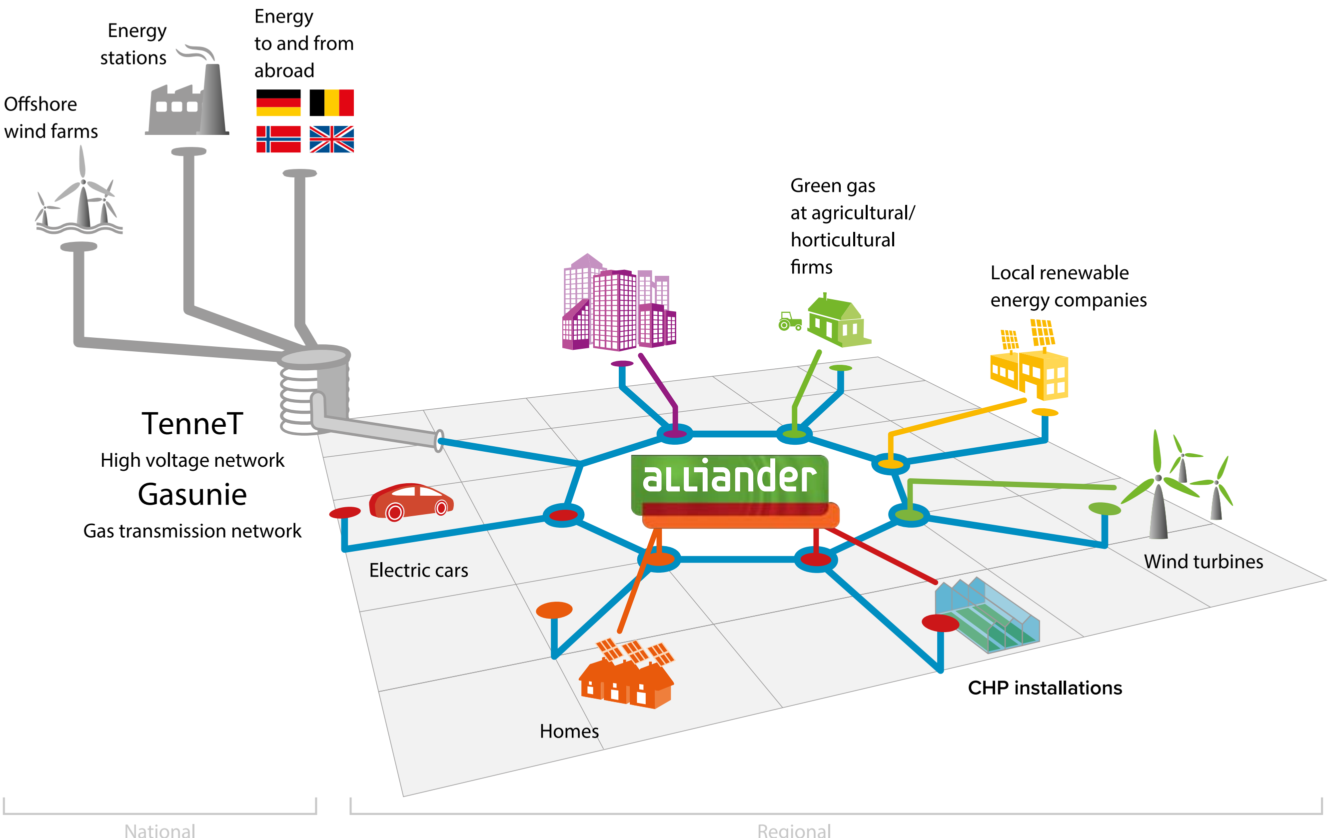
About Alliander

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

Our role in the energy chain

As a network company, Alliander is responsible for the regional distribution of energy, such as electricity, gas, biogas and heating. We neither produce nor trade energy ourselves. That is a task for energy suppliers, purchasers and traders. The vast majority of the energy we distribute comes from energy plants and wind farms, through the national energy networks of TenneT and Gasunie, or from imports.
In addition, a growing number of consumers and businesses are feeding self-generated energy into our energy networks. To facilitate the resulting interaction between energy demand and supply, our company needs to assume a new role. 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 e-vehicle charging points.

Alliander in the energy chain



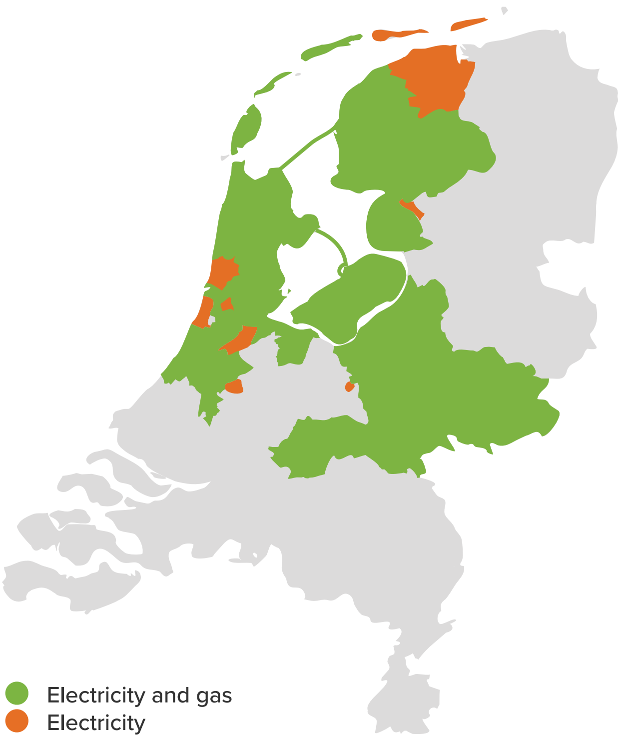
How we are organised

Alliander consists of a group of companies, employing about 7,150 people in total. Together, we stand for high-quality knowledge of energy networks, energy technology and technical innovation. The shareholders of Alliander are Dutch provinces and municipalities. Together with them and our partners, we discuss our plans for the future and offer solutions for complex energy infrastructure issues.

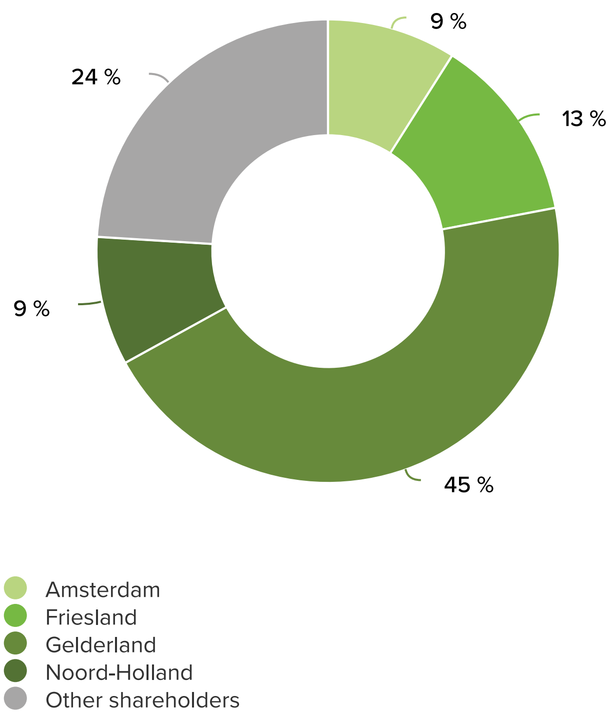
Liander

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

Service area



Shareholders



Liandon

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

Allego

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

Alliander Duurzame Gebiedsontwikkeling (DGO)

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

Kenter

Meetbedrijf Kenter delivers innovative energy measurement and management solutions to cost-aware and sustainably-minded business customers. This includes placing meters, supplying reliable measurement data and providing insight into energy consumption with online analyses. Kenter originated from Liander Meetbedrijf and has been an independent business unit of Alliander since 1 May 2016.

Alliander Germany

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

Other activities relating to the energy transition

Alliander explores and engages in business activities that fit our company's strategy and role in the transition towards a more sustainable energy system. Examples are Energy Exchange Enablers, Smart Society Services, Locoland and Zown.

2016 in figures

Number of customer connections
5.6m

Number of employees
7,150

Electricity outage duration
23.3minutes

CO_2-emissions
797kt

Revenue
1.6€ bn

Investments
680€ m

Total assets
7.7€ bn

Operating profit
282€ m

Our service area

Grid length

ELECTRICITY
90,000km

GAS
42,000km

Our mission

Energy is essential for our well-being and our prosperity. Energy enables us to heat our homes, cook, teach and communicate. It keeps our road and rail systems moving, and crucial financial systems up and running. Energy, in short, enables us to live, work and travel. Without energy, nothing works. It is the oxygen of our society. We stand for an energy system where everyone has equal access to reliable, affordable and readily available energy. That is what we aim to secure every day.

How we make the difference

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

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

Accessibility
Customers must 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

The energy transition, and thus the transformation of our energy system, continues unabated. It is essential that we identify and anticipate developments in time, so that we can guarantee the continued supply of energy in the future. This is in the interests of our organisation, customers and other stakeholders, who are increasingly dependent on energy. The challenges we face have gained in urgency since the Paris Climate Agreement. Our response to these challenges will determine our role in the energy transition.

What we see around us

We see three trends that will impact the energy system.

More local generation

More parties are generating electricity locally from the sun, wind and other renewable sources. This is visible all around us in the proliferation of solar panels on rooftops and wind turbines in the countryside. Some customers now also want to combine solar and wind energy.

Electrification

Demand for energy in our society is rising. Although electrical appliances continue to be more energy efficient, we see that the increasing and more intensive use of electrical applications still requires larger transport buffering capacity and high reliability of the grid. Added to this, the dependence and use of gas is projected to decline significantly in the coming decades. The Energy Agenda presented in 2016 also stresses that we need to phase out natural gas in the built environment. This will have a major impact on the activities and infrastructure of network operators.

Digitisation

In the energy sector, as elsewhere, digitisation is advancing at a rapid pace. Information technology and data are set to play a crucial role in the design, operation and optimisation of our energy supply. ICT and data enable network operators to improve their energy flow management, prevent and detect outages 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. This makes ICT a high-impact driver of change in the energy system, while creating important opportunities to address the challenges confronting our energy system.

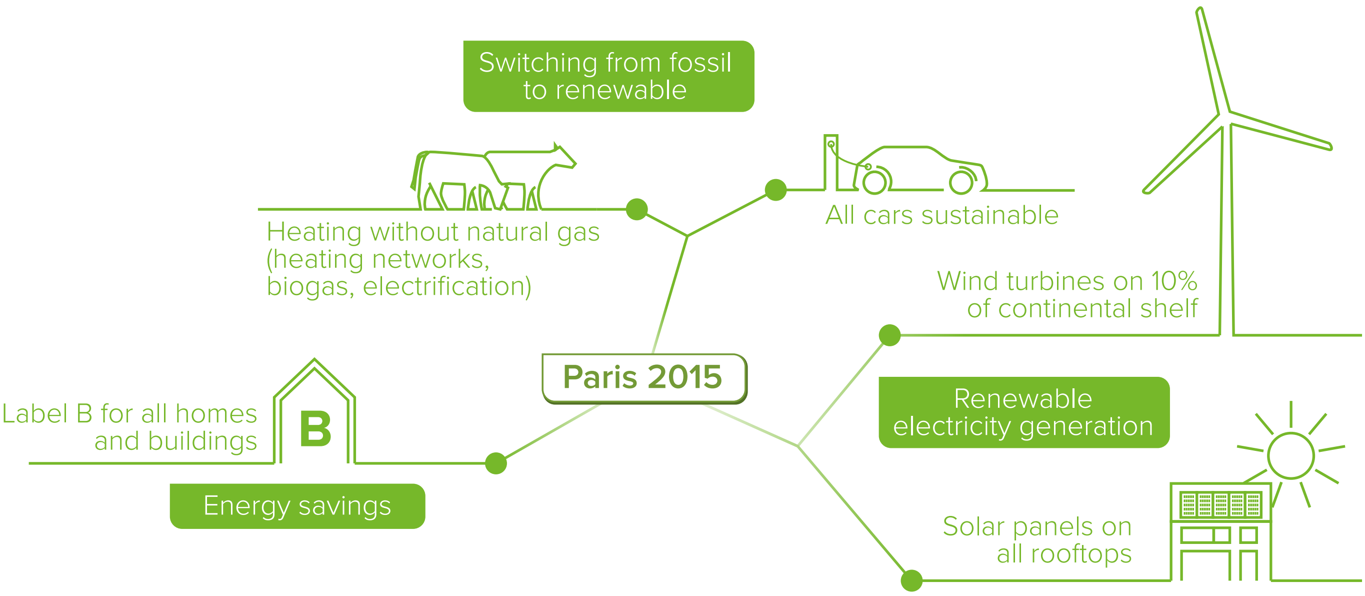
Paris as catalyst

During the Paris climate conference in December 2015, it was agreed that global warming must remain well below 2 degrees Celsius compared to the pre-industrial era. For the Netherlands, this means an 80% to 95% reduction of greenhouse gas emissions by 2050. This agreement has acted as a catalyst. The CO_2 reduction efforts must be stepped up considerably to meet the set targets. The need to achieve the climate ambitions is becoming more and more urgent. The quicker we effect the transition to a more sustainable energy system the better.

What must be done

The Paris objectives can only be achieved if all parties jointly commit to a fundamental transformation of the existing energy system. The first vital step is to promote energy saving measures (such as the insulation of homes and buildings). Next, alternative heating systems must be realized, such as heating networks, biogas and electricity. The take-up of e-vehicles will also accelerate. And, finally, renewable generation will continue to grow, with the aid of solar panels, wind turbines and other clean technologies. The exact roadmap and the pace of the transition are not yet clear. That is why we must work with our customers and other stakeholders to facilitate a timely transition to a sustainable energy system.

One possible scenario



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

Our Strategy

The trends and developments signal that the drive towards more sustainable energy is set to accelerate sharply. Our stakeholders expect us to make a substantial contribution towards the new energy landscape. To this end, we have defined a clear four-pillar strategy.

1 Support customers in making choices

Customers are gaining more and more influence over the energy system. Incentives can encourage them to make choices that not only work out well for them, but also for our energy system as a whole. More specifically, we need to make it attractive for customers to buy energy in times of abundance, sell energy in times of scarcity and refrain from using the energy network at peak times. To achieve this, we need to apply variable energy pricing (the scarcer energy is at a certain time of day, the higher the price) and variable transmission tariffs (based on peak loads on 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 manage their energy. Alliander is facilitating this process. In the coming years, we will offer smart meters enabling billing per 15-minute or hourly time slot to all our customers. And we will also help customers to exchange energy among themselves.

2 New open networks

The construction of alternative infrastructures may prevent the need for costlier investments in the existing network. If, for instance, a local community wants to install heat pumps in every individual home, the demand for electricity in that area will rise sharply (especially on cold days). The electricity network would require a substantial upgrade to meet this increased demand. It is vital to ascertain with all stakeholders whether this is the cheapest and most sustainable solution. At a local level, 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 makes these networks more affordable, as the costs can be shared among more users. Added to this, facilitating the market in this respect forms an important element of our corporate social responsibility.

3 Digitisation

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 the need for 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.

4 Excellent network management as 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 also actively contribute to the development and large-scale application of open standards, for both new networks and solutions that help customers make good choices.

Objectives and results

Safety

Objectives 2016	Results 2016	Objectives 2017	Strategic objectives	Main risks[8]
LTIF (lost time injury frequency) A decrease in the number of accidents leading to absenteeism, so that the LTIF is 2.1 or lower.	23 accidents leading to absenteeism occurred, resulting in an LTIF of 2.0	An LTIF of 2.0 or lower.	An LTIF of 2.0 or lower from 2017.	Safety
Safety culture Active safety culture percentage is 30% or higher[1].	Our score is 34%	Active safety culture percentage is 30% or higher.	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 2016	Results 2016	Objectives 2017	Strategic objectives	Main risks[8]
Customer satisfaction Customer satisfaction in consumer and business markets continues to outperform a benchmark of Dutch network operators.	Consumer market 97% against benchmark Business market 89% against benchmark	Customer satisfaction measured by the NES[2] score is higher than 52% (consumer market) and 38% (business market).	Customer satisfaction in consumer and business markets rises further in the coming years.	Availability of technical staff in labour market, cybercrime, privacy of energy data, facilitation of energy transition
Electricity outage duration[3] Maintain low outage duration. The objective is a maximum of 21 minutes.	23.3	Maintain low outage duration. The objective for 2017 is 21 minutes.	The outage duration remains 21 minutes at maximum in the coming years.	
Number of postcode areas with more than five interruptions per year No more than 16 postcode areas with more than five interruptions.	17	The number of unique cable numbers[4] with more than five interruptions is a maximum of 18.	The number of unique cable numbers with more than five interruptions is a maximum of 18 in the coming years.	
Top risk-mitigating projects[5] We aim to achieve at least 90% of the milestones.	48% Additional notes in Customers chapter, pillar 4	In 2017, we again aim to complete at least 90% of the most important projects before year-end.	We aim to complete 90% of these projects.	
Offer smart meter[6] We offer smart meters to 424,000 addresses.	428,000	We will offer smart meters to 534,000 addresses.	By 2020 everyone has been offered a smart meter.	
Digitisation programmes In 2016 we will complete 95% of our planned digitisation projects.	8% Additional notes in Customers chapter, pillar 3	In 2017 we will complete 95% of our planned digitisation projects.	Alliander opts for digitisation of its networks.	

Employees

Objectives 2016	Results 2016	Objectives 2017	Strategic objectives	Main Risks[8]
Employee survey score Great Place to Work employee survey score of at least 75.	70	In 2017, we aim for a score of 75 in the Great Place to Work employee survey.	Be a top-class employer: an innovative and successful company where we develop future-oriented knowledge and competences.	Required competences
Absenteeism of employees Maximum absenteeism percentage of 3.9%.	4.1	Maximum absenteeism percentage of 3.9%	The maximum absenteeism percentage is 3.9% in the coming years.	
Women in leadership positions At least 26% of all leadership positions are filled by women.	24.7%	At least 27% of all leadership positions are filled by women.	In 2025 at least 33% of our leadership positions are filled by women.	
People at a distance from the labour market Offer 100 apprenticeships to people at a distance from the labour market	104	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.	

Stakeholders and investors

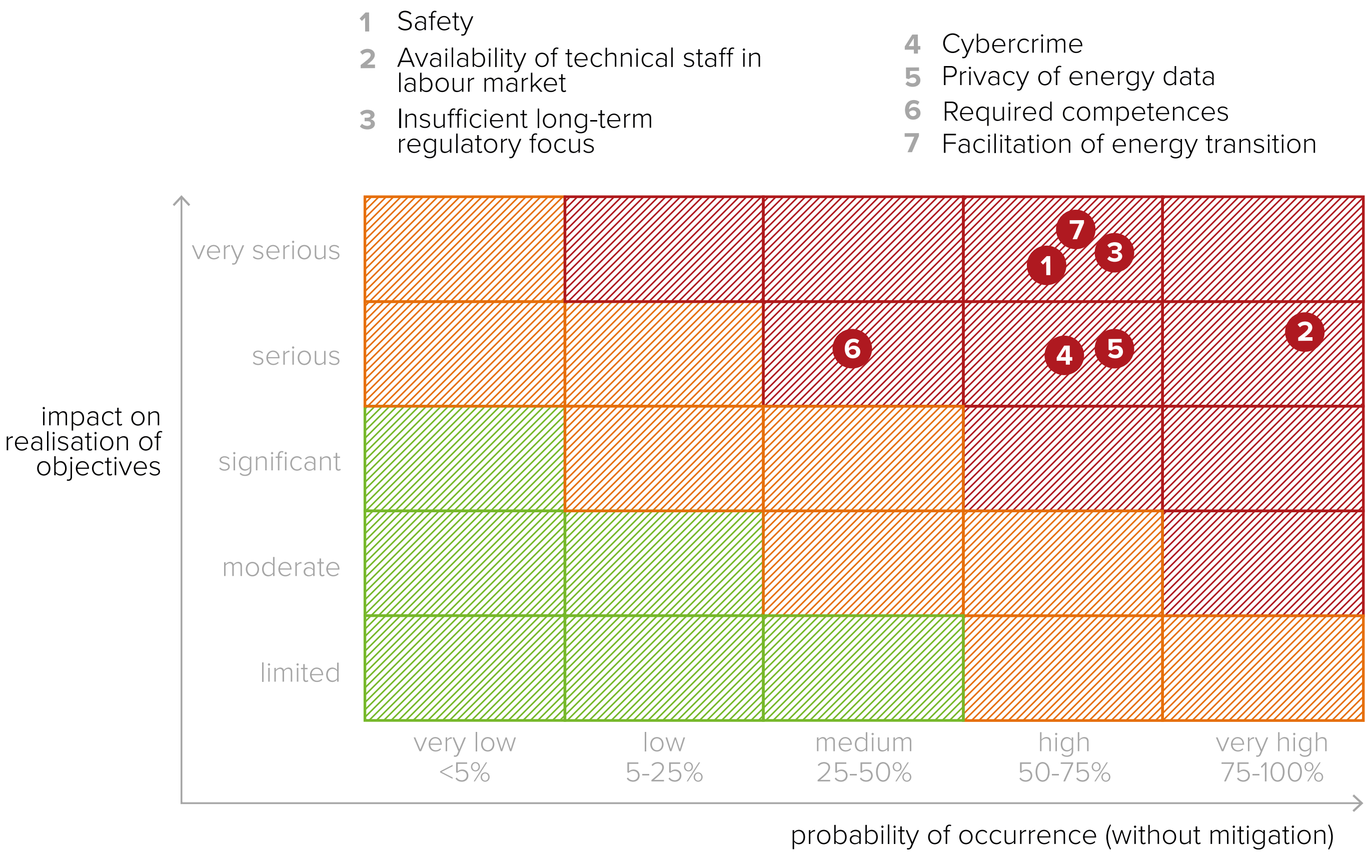
Objectives 2016	Results 2016	Objectives 2017	Strategic objectives	Main risks[8]
Retention of solid rating Maintain solid A rating profile.	S&P AA-/A-1+/stable outlook Moody's Aa2/P-1/stable outlook	Maintain solid A rating profile.	Maintain solid A rating profile. Continuously outperform the sector in terms of costs and operational excellence. Solid results compatible with the regulated permitted return.	Insufficient long-term regulatory focus Financial risks as outlined in the financial statements
FFO/Net debt Objective: > 20%	27%	FFO/Net debt objective: > 20%		
Interest cover Objective: > 3.5	8.3	Interest cover objective: > 3.5		
Net debt/ (net debt + net equity) Objective: < 60%	33%	Net debt/ (net debt + net equity) Objective: < 60%		
Solvency Doelstelling: > 30%	59%	Solvency objective: > 30%		
Socially Responsible Procurement At least 68% of our procurement is socially responsible.	71%	At least 71% 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.	
CO_2 emissions from business operations CO_2 emissions are a maximum of 833 ktonnes (according to a sector-wide calculation method).	797 kton	CO_2 emissions are a maximum of 673 ktonnes (according to a sector-wide calculation method).	We strive for climate-neutral operations in 2023.	

1 The safety culture performance within Alliander is measured according to the position on the safety ladder. The score and target for 2016 are based on the number of employees having achieved a safety proficiency level of at least 3.
2 From 2017, Alliander will report on customer satisfaction using the Net Effort Score (NES).
3 The outage duration in minutes indicates the average duration that our customers in the Liander area had no electricity during a one-year period. The stated outage duration for 2016 is based on low, medium and high voltage.
4 From 2017, Alliander will report the number of repeat outages based on cable number instead of post code area.
5 The KPI measures the extent to which the predefined milestones were achieved for the 25 most important risk-mitigating programmes or projects. The definition of KPI has changed compared to 2015, and KPI now focuses on intermediate milestones and not just on the final completion of a project.
6 The target for 2016 (424,000 addresses) deviates from the 2016 target as stated in the 2015 annual report and 2016 year plan (447,000 addresses). This is due to the fact that the definite timetable for the smart meter roll-out was completed after the publication of the annual report and year plan.
7 The CO_2 emissions objective for 2016 was recalculated according to the most recent emission factors.
8 The Risks chapter clarifies the risks in more detail.

Risks

Good risk management is of vital importance for Alliander. It gives us the assurance we need to achieve our strategic objectives in a responsible manner. We use a dedicated risk management framework that has been built around key principles. One principle is that our measures must always be consistent with our objectives. This ensures that no unnecessary demands are made on our organisation. And that no additional expenditures are incurred to mitigate risks if we believe them to be under sufficient control. This enables the entire organisation to make adjustments and improvements whenever necessary, while Alliander can comply with all laws and regulations.

Our main risks



Risk types

Risk management is a regular item on the agenda of the Management Board and other executive and management layers within Alliander. Its application is primarily a responsibility of the line management. Risk reports disclose the extent to which our main risks are mitigated through our internal processes. Aspects we consider to be important are measured against a risk matrix based on agreed parameters. For instance, financial risks (probability multiplied by impact) from € 10 million are classified as High.
Risks that impact our other corporate values are also important. This concerns such areas as safety, quality of supply, sustainability, customer & image and laws & regulations. That is why we also keep a close eye on whether risks have an impact on these perspectives. We estimate risks (probability and impact) by taking account of the current status of controls.

Risk acceptance

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

- Our risk acceptance regarding compliance is low: we want to comply with all laws and regulations and act in accordance with internal procedures and the Alliander Code of Conduct.
- The safety of our employees and our networks is another area where risks must be excluded wherever possible.
- Our risk acceptance for the effective and efficient use of our operating assets is based on cost-benefit assessments.
- For strategic risks we seek the right balance between the risks and our long-term ambitions.

- For financial risks we apply a low acceptance level. This guarantees that we maintain a solid financial basis, meet the set financial criteria and fulfil our corporate social responsibility.

Risk awareness

Our previous annual report and half-year report already gave an account of risk management and internal control developments within Alliander (framework, policy, matrix). The risk awareness within Alliander is generally sufficient. The GRC supports the business to make improvements where necessary. This ongoing cooperation is bearing fruit and offers good and up-to-date insight into the uncertainties within our business. The risks that were identified as very high during the last risk inventory are the main risks facing Alliander at the present moment. These are clarified in this annual report. For a detailed description of the risks, the development of these risks and how the risk is managed, please see below 'Notes to risks'.

Financial risks, including our credit risk, are explained in note 34 to the financial statements. An extensive description of all our key operating asset risks can also be found in the Quality and Capacity Documents that are drawn up every two years. These are posted on www.liander.nl/kcd. The Corporate governance, Statement by the Management Board and Other information chapters provide more information on how risk management forms an explicit part of the internal controls and decision-making procedures. Scenario analyses are also used to highlight new developments. More general information about risk management can be found on the website alliander.com.

Primary linkage of risks and strategic pillars

Primary linkage of main risks and strategy	1 customer choice first	2 open networks	3 digitisation	4 excellent network management
1. Safety				•
2. Availability of technical staff in labour market			•	•
3. Insufficient long-term regulatory focus	•	•	•	•
4. Cybercrime			•	•
5. Privacy of energy data	•			
6. Required competences	•	•	•	•
7. Facilitation of energy transition			•	•

Notes to risks

Below we have described for each risk what it entails, how Alliander controls this risk and what the long-term trend is (how is the risk expected to develop: decreasing, neutral or increasing).

decreasing: ↓
neutral: →
increasing: ↑

1 Safety →

What is the risk?

Working with gas and electricity involves health & safety risks for our employees, contractors and customers. Insufficient safety awareness or knowledge of safety measures increases the risk of accidents. Actions of third parties, whether accidental or malicious, may cause unforeseen safety risks. In a worst-case scenario, unsafe working conditions may result in serious casualties or fatalities.

How is it managed?

Within our organisation we take targeted safety measures. Despite the progress made on safety awareness last year, we were still confronted with safety incidents. Even more attention is therefore being given to this issue. Improvements are being made to our safety culture. For example, safety risks and measures are now specifically mentioned during the pre-job meetings at the start of every day. Our processes and components are being made safer and training and refresher courses are being provided to staff. Accidents are investigated to identify the immediate and underlying causes. The findings are used to make improvements together with our internal organisation and our contractors. Our ambition is 'Everyone safely home!'

2 Availability of technical staff in labour market ↑

What is the risk?

As the Dutch economy and the energy transition gather pace, the demand for specialised technicians is certain to grow. Unfortunately, specialised technicians are scarce in the Dutch labour market. In the coming two years, we will need at least 80 extra field service engineers for Liander and at least 50 for Liandon. There is a risk that we will not be able to recruit them fast enough. Measures are already being taken to minimise the consequences for our customers.

How is it managed?

To fill this imminent shortfall, we are conducting intensive recruitment campaigns (also targeted at foreign engineers) and investing in technical programmes at Regional Training Centres. In addition, we are freeing up extra engineering capacity by reorganising the performance of specialised tasks and through smarter planning. Cross-regional matching of supply and demand is one crucial strategy. In addition, more work is being outsourced to contractors (who face similar recruitment bottlenecks, incidentally). Finally, we are intensifying our cooperation with fellow network operators.

3 Insufficient long-term regulatory focus ↑

What is the risk?

The rules within the regulated energy domain have an impact on the scope of our activities and our profitability. The failure of regulations to keep pace with changes in the energy landscape may affect the long-term continuity of our company. One major change is the envisaged sharp reduction in the use of fossil fuels. For Alliander, this could mean that our gas networks are given a different use or that customers defect from the gas network. In the latter case, we will be unable to earn back our current investments and this could jeopardise the affordability of our energy network.

How is it managed?

Constructive new legislation is vital so that we can continue investing in new initiatives for the energy system of the future. We think 30 years ahead about the impact that the transition from fossil to renewable fuels will have on the infrastructure we manage. We create future projections to indicate the necessary regulatory adjustments and discuss these with relevant parties.

4 Cybercrime →

What is the risk?

Ongoing digitisation has made vital infrastructure (energy networks and above-ground assets) more vulnerable to political and terrorist hacking. Now that such incidents are on the rise, cybersecurity is more crucial than ever. Any failure to respond in time to rising or changing trends in cybercrime exposes Alliander to a very high risk.

How is it managed?

We protect our networks and computers against attacks by working on prevention, detection and cybersecurity response plans. Within the Association of Energy Network Operators in the Netherlands (Netbeheer Nederland), we are working intensively together to address this issue. We also maintain close ties with the Dutch National Cyber Security Centre and with other parties to keep track of the rapidly evolving developments and pick up external signals of attacks at an early stage. We are also an active participant in the European Network for Cyber Security (ENCS) to mitigate cyber security risks.

5 Privacy of energy data →

What is the risk?

As part of our energy network management activities, we have access to privacy-sensitive data. This concerns e.g. connections, energy contracts, usage and costs. Clearly, safeguarding the privacy of these energy data is a high priority. The risk we run in relation to privacy violations is very real. As recently as 2016, the energy data of over two million households were stolen from one energy supplier's system. See also What have we learned.

How is it managed?

When processing energy data, we carry out privacy-impact analyses. Based on the outcomes, measures are taken where necessary. Starting from 2016, organisations are obliged to report any personal data leaks to the Dutch Data Protection Authority. Alliander has set up the requisite processes and organisation for this purpose. Our data protection efforts extend beyond our own organisation. The various players in the energy sector are taking joint action to put in place robust measures for the protection of privacy-sensitive data. The data theft that took place last year is being thoroughly investigated in order to reduce the risk of recurrence. To this end, information is being exchanged with regulators (the Dutch Data Protection Authority and the Netherlands Authority for Consumers & Markets), industry organisations (the Association of Energy Network Operators in the Netherlands and Energie-Nederland) and other relevant parties.

6 Required competences ➡

What is the risk?

We acknowledge that the recruitment, development and retention of the competences required now and in the future constitute a strategic challenge. The energy transition has far-reaching consequences for our company. This will increasingly demand different competences, alongside our traditional in-house competences.

How is it managed?

We must have a clear idea of the critical competences that will be required in view of advancing technology and digitisation. To hire new talent, we must retain our status as employer of choice. This means offering good development opportunities as well as meaningful and challenging jobs (for both technical and IT staff). We must also try to keep our existing employees on board through training and refresher programmes. Our recruiters communicate with our target groups through social media and other channels. Finally, we are intensifying our partnerships with universities and colleges to establish an early top-of-mind presence as a potential employer.

7 Consequences of energy transition ⬆

What is the risk?

The energy transition is accelerating. Solar panels, wind farms, heat pumps and e-vehicles are in the ascendancy. Natural gas is being phased out. This means that the electricity network needs to be rapidly upgraded in many places. Regardless of the financial consequences, keeping pace with these fast developments will be operationally impossible. This poses serious risks, notably for the reliability of the energy supply.

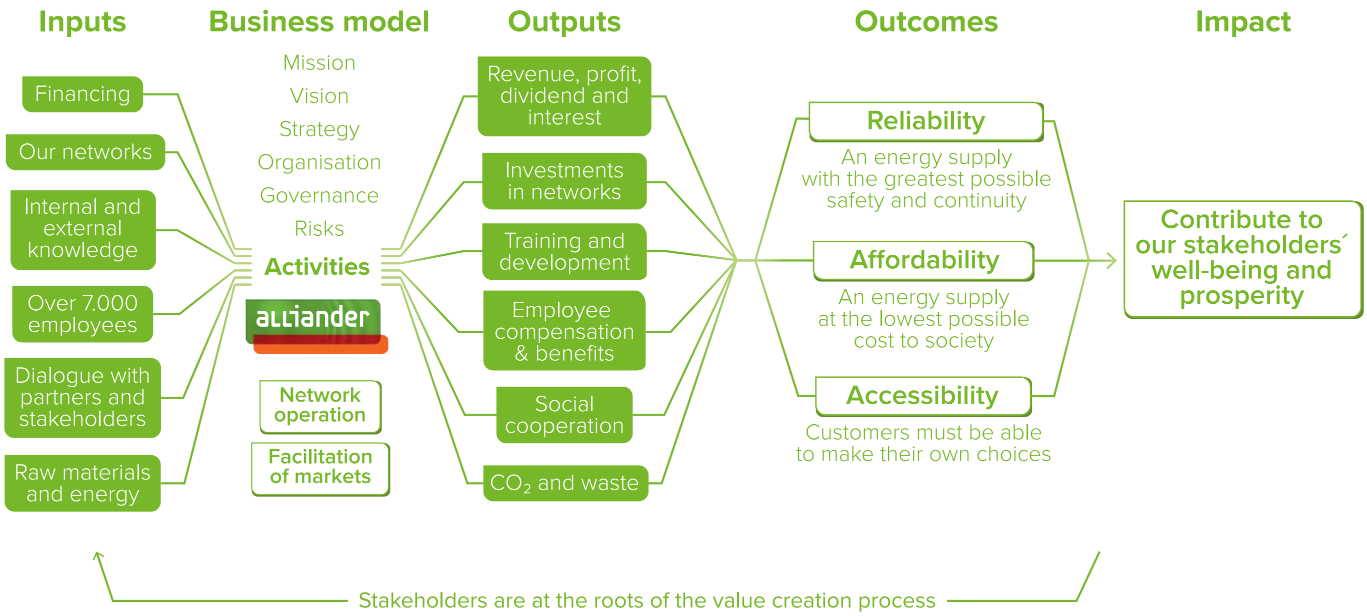
How is it managed?

Innovative solutions can enable us to cope with the changes without requiring network upgrades or additional operational capacity. And that is a good thing. as the necessary capacity (in terms of skills and numbers) may not be sufficiently available in the market. That is why our focus is now on developing the required innovations and recalibrating our market model.

Our impact

Alliander works continuously to secure a reliable, affordable and accessible energy supply that everyone can use on equal terms. We recognise that our activities have multiple social impacts, such as on the economy, nature, knowledge development and the safety and stability of the energy system. In short, on our prosperity (wealth and economy) and well-being (health and happiness).

To measure our impact on society, we have analysed the value chain and aim to quantify the consequences of our operations in a single unit (euros) wherever possible. Alliander is currently gaining experience with this practice. In the coming years, the impact calculations will be taken on board in our decision-making. The three stakeholder chapters in this report take a closer look at our value calculations. Our value creation process can be viewed interactively in our online report.



Why quantify impact?

Alliander wants to make a contribution to society that goes beyond its traditional responsibility for a reliable, affordable and accessible energy supply. We can offer many benefits to society in diverse roles, including as a network operator in the changing (renewable) energy market, as an employer, and as a responsible corporate citizen for local communities. In assessing the social contribution of our activities, our main focus is currently on the inputs (costs) and outputs (direct consequences). By quantifying and monetising our social impacts on prosperity and well-being, we gain better insight into specific factors and their interactions. We are thus developing a new language that will ultimately help us to make better decisions.

Our journey in impact measurement

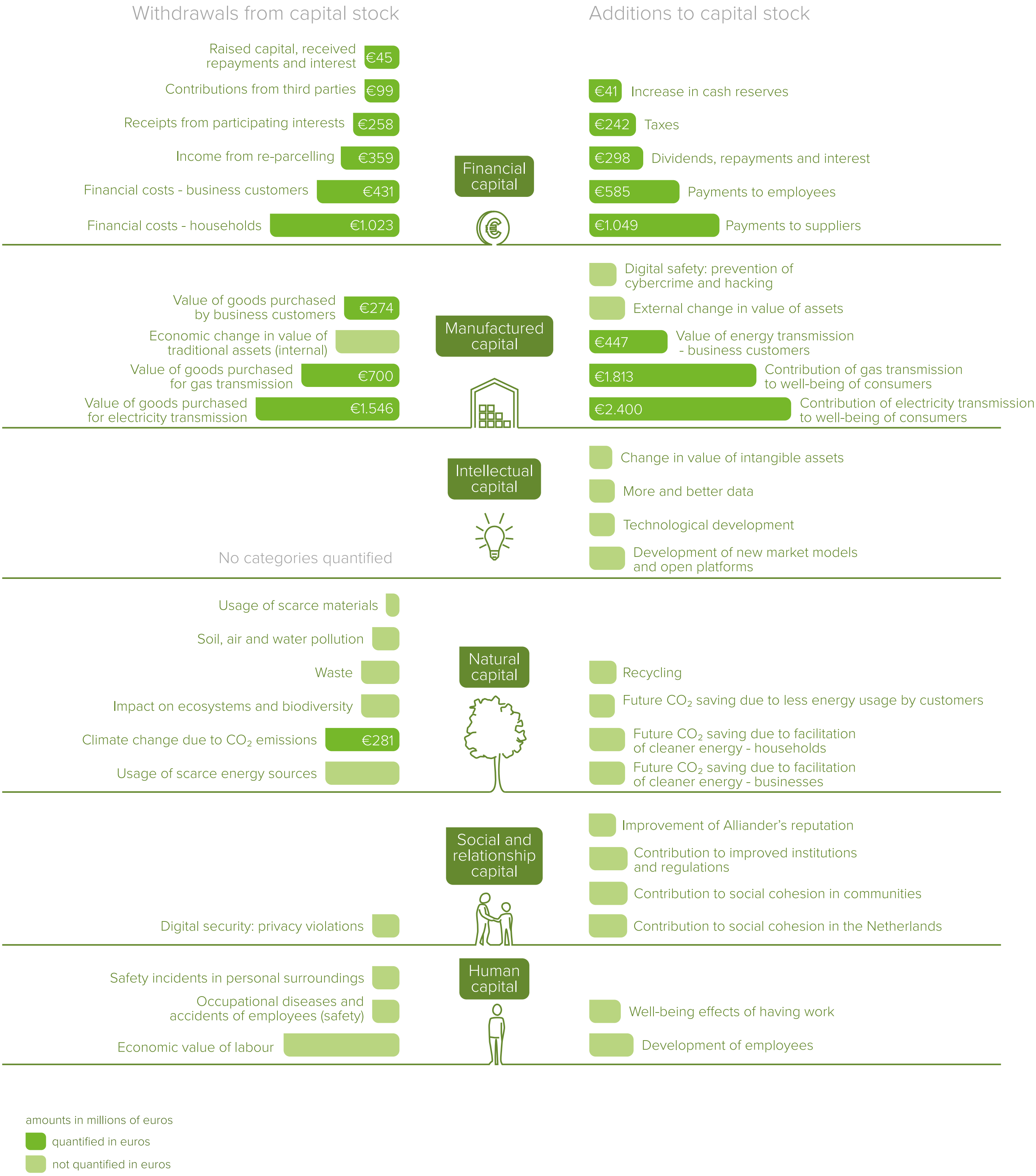
In 2015, we started to analyse, quantify and report on our social impact, based on selected projects. We looked at the social impact of the construction of heating networks, the placement of smart meters and our investments in Step2Work for people at a distance from the labour market. In 2016, we continued to assess and quantify the impact of projects. This report outlines the impacts we have identified in respect of the accelerated digitisation of our networks in the province of Noord-Holland and the sustainable renovation of our two largest office buildings. In 2016, we also sought to track down the most important impacts of all of Alliander's activities, either as an individual company or based on our position in the energy value chain. Some of these impacts were quantified.
In making these impact calculations, we are aware that the identification, quantification and monetisation of ecological and social impacts are still in progress. Further standardisation of calculation methods and assumptions is required at international, national and sector level. With our impact report, we want to contribute to this process, and we will continue to do so. We therefore intend to further improve and expand our impact model in 2017. Working with other network companies, we want to lay the foundations for a broad-based sector model. Going forward, we will also use the model to make better choices.

Impact at a glance

To properly understand the ways in which we make a positive or negative contribution to society, we have identified our relevant impacts, based on the six capitals model of the International Integrated Reporting Council (IIRC) http://integratedreporting.org/. We first made a long list of potential impacts. Qualitative analyses based on input from professional journals and newspapers, academic literature, annual reports, studies and internal consultations were then performed to draw up the final short list. The figure below indicates the relative size of Alliander's social impacts as currently identified, quantified and monetised.

To visualize the magnitude of the impacts (both positive and negative), we have chosen to translate non-financial securities into euros (monetization). In this first year that we conduct the impact measurement in this way, we are able to quantify only a portion of the identified impacts. Our measurements contain uncertainties because assumptions have to be made in the calculation. An explanation, see "Other information". A further detailed explanation where also full details of the criteria, principles and assumptions as well as the calculation methods used, online insight.

Main impacts of Alliander



Important impacts of Alliander

Financial capital and manufactured capital

The continuous availability of energy has a high prosperity value for customers. Without energy, almost everything grinds to a halt. Due to the dependence on energy, transmission and connection services as well as measurement services for small users have been designated as exclusive statutory tasks of network operators. The tariffs are regulated to ensure our energy remains affordable and reliable.

In financial terms we have estimated the prosperity value of electricity and gas transmission at about € 4 billion, which is significantly higher than the tariffs that customers pay for energy. We plan to assess the monetised prosperity and well-being impacts of gas and power outages in more detail. Through our role and position in the value chain, we feed a lot of money back into society. Every year, we pay suppliers for goods, services and costs of operating assets used for the construction and maintenance of our networks. In doing so, we generate a lot of work and income for other parties. This stimulates the economy, creates jobs and promotes prosperity. At the same time, we withdraw capital from society for the financing of our activities.

We realise that the energy system is undergoing radical change. Climate agreements and advancing technology will influence the value of gas and electricity connections to our central network. By determining both the economic and social impact of the availability of energy, at both a national and local level, we can make better decisions in the future.

The welfare value of the energy transport is calculated on the basis of the consumer surplus. This is the added value that customers, in theory, would be willing to pay above the regulated price for a service or product. The consumer surplus is currently the most common method for determining economic value, both for liberalised and regulated markets. The consumer surplus covers all price elements in the energy chain, thus includes taxes and prices for supply and transport of energy. The calculated amount indicates the economic part of the energy value chain that is attributable to Alliander.

Intellectual capital

Alliander invests time and money in the network management of the future. This annual report looks extensively at the digitisation of our networks and the key role of data as well as at new business and market models to meet the challenges of the energy transition. This creates intellectual capital for Alliander and its stakeholders. New open infrastructures for e-charging posts and heating networks, for instance, not only enhance our own knowledge and expertise but also unlock new market opportunities for businesses. The monetisation of intellectual capital calls for reliable historical data. We intend to make a further step forwards in this area next year.

Natural capital

Network operators make heavy inroads into our planet's scarce resources. We use large quantities of materials and have a (regulated) environmental impact on the soil and water in our regions. The biggest negative impact comes from the CO_2 emissions through our grid losses and our position in the - still largely fossil - energy chain. These CO_2 emissions give rise to additional costs of € 281 million in terms of natural capital or climate effects.
On the other hand, we also have a positive ecological impact. Think of the construction of sustainable heating networks and e-charging posts, wind turbine connections, solar feed-in and the integration of renewables into the energy network. Our 'circular economy' projects also reduce the use of scarce natural resources. We have not yet been able to put an exact figure on our positive impact. Finding the right coefficients for this purpose is a challenge that we want to take up with our colleagues in the sector.

Social and relationship capital and human capital

As a transparent and reliable employer, we contribute to social stability and cohesion and ensure that everyone experiences personal advantages of being in work. Safety incidents relating to the energy infrastructure have a negative well-being effect on the individuals involved and their family and friends. The safety of people is our top operational priority. Needless to say, further digitisation and automation will also be a game changer in the energy sector. The further quantification of our social and relationship capital and our human capital in 2017 will help us to more accurately determine the implications of the energy transition for our role as employer.

Impact of our projects

The future holds many changes for network operators. Due to the steady growth of local renewable generation and the rapidly evolving customer demands, it is important that alternatives and innovations are rigorously tested and, if successful, scaled up. In 2016, we calculated the impacts of two of our projects. The first concerned the roll-out of a far-reaching form of digital network management in the northern part of the province of Noord-Holland. The second was the construction of our premises in Arnhem and Duiven. For our own energy-neutral buildings, we calculated the positive impact that sustainable buildings have for society. The impacts of these projects are explained further in the 'Customers' and 'Employees' stakeholder chapters.

What we learn from our impact analyses

Together with our knowledge partners, we have gained many new insights into the consequences of our activities. Reliable network management clearly has extremely great financial and economic value for Alliander. We can now better identify our intellectual, social and relationship, and human capitals and have obtained insight into the negative impacts of the distribution of energy which is still largely fossil-based. In terms of climate effects, this is many times greater than our own CO_2 emissions.
The impact measurements for our projects compelled us to make carefully-considered assumptions about the expected CO_2 effects, avoided investments and costs.

The various impacts were calculated with a critical and conservative mindset, and we realise that some assumptions and criteria are still subject to debate, both within Alliander and among stakeholders outside our organisation. We note that our projects will produce the expected benefits, but only in the longer term and sometimes in relation to other themes than expected. Clearly, the true value of digitisation will only come to the fore once the transformation to local renewable generation has taken place. One unexpected, but important, benefit of our sustainable office renovations lies in the creation of a healthier indoor climate. The impact calculations thus offer valuable insights into the effects of the choices we make.

Follow-up steps

In 2017, Alliander will seek to further improve and expand the impact model, devoting more attention to the social and human impacts. Working with other network companies, we want to lay the foundations for a broad-based sector model. The model will also be used to enhance decision-making on new developments and investments. As before, we will engage in a dialogue with all our stakeholders in order to maximise the social returns of our operations. Our assumptions and criteria can be viewed online. In providing this transparency, we invite all our stakeholders to help us keep improving our methodology.

Sustainable Development Goals

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

Alliander and the Sustainable Development Goals

In the SDG Charter each participant has committed to make a contribution in its own field, either individually or in partnership, to achieve the SDGs. Alliander plays an essential role in securing a safe and constant supply of energy. In addition, we are working on a more sustainable energy network and devising solutions for the market. Through these ongoing collaborative and innovative efforts, we aim to create social value (see Our impact) and reduce negative effects. In this way, we are determined to be part of the solution.

Where Alliander can make the biggest contribution

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

SDG	Explanation	Relevance for Alliander	How can Alliander make a contribution?
	ENSURE ACCESS TO AFFORDABLE, RELIABLE, SUSTAINABLE AND MODERN ENERGY FOR ALL	We aim to secure a reliable, affordable and accessible energy system that everyone can use on equal conditions	• Offer open sustainable networks • Make grid losses greener by investing in renewable generation • Offer insight into energy usage with smart meter and options for meter applications • Participation in international initiatives aimed at knowledge sharing and technology development and application
	MAKE CITIES AND HUMAN SETTLEMENTS INCLUSIVE, SAFE, RESILIENT AND SUSTAINABLE	We support our customers in the built environment with the transition to a sustainable energy system	• Improve air quality by facilitating clean electrical transport • Sustainable area development, ambitious housing by means of transition buildings • Green Alliances
	ENSURE SUSTAINABLE CONSUMPTION AND PRODUCTION PATTERNS	Alliander is working on socially responsible operations (also in the value chain) and supports sustainable area development	• Sustainable procurement • Climate-neutral in 2023 • Reducing energy intensity and increasing energy-efficient operations • Circular network operator • Cooperation and participation in green networks • Clean corporate mobility

Ambitions for the coming years

Mindful of the ultimate objective in 2030, we are going to establish what we can contribute in a step-by-step process. Our main focus this year will be to understand the SDGs, set priorities and raise internal awareness of these goals. Once we have a clear idea of the contributions we can make, it will be possible to define, integrate and implement specific objectives within our operations. One key challenge in this context is to link the SDGs to Alliander's long-term objectives. We will report on our progress in this area in the coming years.

Our results in 2016

Customers

Our customers count on us for a flawless energy supply. To make a cup of coffee, shop online and travel safely. And when they generate their own energy, they still want the reassurance of a reliable infrastructure with a good service.

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

Objectives and results related to customers

Customer satisfaction

2016 OBJECTIVE

Outperform a benchmark of Dutch network operators

2016 RESULT CONSUMER

97%

2016 RESULT BUSINESS

89%

Electricity outage duration

2016 OBJECTIVE

at most 21.0 minutes

2016 RESULT

23.3 minutes

Digitisation programmes

2016 OBJECTIVE

at least 95%

2016 RESULT

8%

Realisation of smart meter deadline

2016 OBJECTIVE

at least 424,000

2016 RESULT

428,000

Postcode areas with > 5 interruptions

2016 OBJECTIVE

at most 16

2016 RESULT

17

Top risk-mitigating projects

2016 OBJECTIVE

at least 90%

2016 RESULT

48%

Our customers and the energy transition

Energy must be available anywhere and anytime. And it must be accessible to everyone on equal terms. This is what we stand for. Alliander has over three million customers and is readying the energy networks for a sustainable future. To succeed in our mission, we must align our services to the demands and needs of our customers. And excel in reliability and convenience.

The expectations of our customers

Consumers count on us to deliver a good and fast service. Any faults that occur must be resolved as quickly as possible. Customers who generate energy - using solar panels, for instance - need to know that surpluses can be fed into the network. Our business customers depend on energy for the continuity of their operations. In addition, our customers are increasingly embracing sustainability ambitions, either as individuals or in collectives. The local renewable energy cooperatives in our regions are a case in point. With our product and service offering, we endeavour to help our customers fulfil their ambitions.

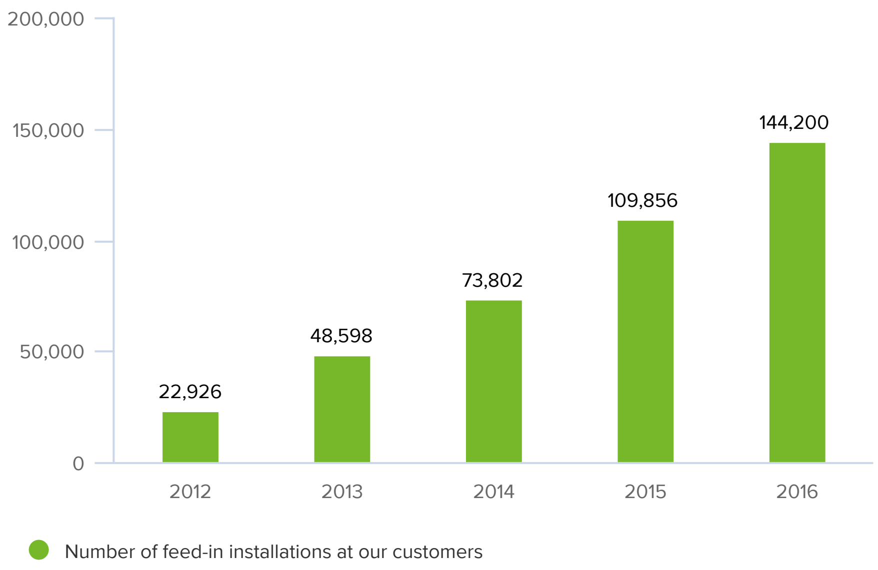
Our ambition

We aim to deliver reliable, affordable and accessible energy. Our strategy is specifically geared towards achieving this aim. With this strategy, we seek to create value for our customers through a four-pillar approach. This part of the annual report explains our four key pillars in more detail.

Pillar 1: support customers in making choices

Customers are gaining more and more influence over the energy system. By far the largest number of our customers still purchase gas and electricity. But a rapidly growing number are now switching over to renewable forms of energy such as solar, wind or biogas. Our challenge is to facilitate this move towards local energy generation, while maintaining a highly reliable infrastructure at the lowest possible costs for everyone.

Number of feed-in installations at our customers[1]



1 Number of registered connections with active feed-in installations in the Liander-service area.

A flexible approach to energy

The transition to new forms of energy means that we need to renew our services to facilitate our customers as best we can. More effective matching of supply and demand is vital to help the electricity network cope with the acceleration in renewable generation and electrification. The increased local generation of wind and solar power poses formidable challenges for the electricity network. Sudden power peaks, for instance, can overload the local network. The availability of electricity is also less predictable, as solar and wind energy are prone to fluctuations.

Experiments

In the year under review, we initiated various experiments to test new services in partnership with customers. One example is the flexible charging of cars. Batteries charge faster in off-peak hours than at peak times, and off-peak charging reduces the load on the network. In Heerhugowaard we trialled a new flexible model for matching supply and demand in the energy market. And in Rijssenwoud, 35 households are taking part in a year-long pilot to test a neighbourhood battery for local electricity storage.

Community wind farm at Nijmegen

A new wind farm can be seen along the motorway in the north of Nijmegen. The initiative was taken by a group of citizens who joined forces in an energy cooperative. The members and donors act as co-decision makers and co-investors. They also enjoy the benefit of 100% green power. The construction of the wind turbines started in April and the wind farm was completed in November. The wind farm is expected to yield energy for 8,900 households. Alliander has assisted in realising the project and finding the most effective energy supply method. One option is cable pooling, which involves the transmission of solar and wind energy through a single cable. This mode of supply is more efficient and cheaper.

Wind farm of and for residents

In 2016, four wind turbines were built in the Betuwe region to the north of Nijmegen. That, in itself, is nothing special. What is interesting, however, is that the owner and developer of this wind farm is a residents' cooperative. Project manager Pim de Ridder: “Passing over the control of our energy system is something I firmly believe in.”

The idea for the Nijmegen-Betuwe wind farm is certainly not new. A plan for the erection of nine turbines was already on the drawing board back in 1996, but it was never realised. With Nijmegen embracing new climate ambitions after its nomination as European Green Capital, the plan was revitalised. A group of citizens set up a cooperative and approached the municipality. “Wind turbines are part and parcel of climate ambitions,” says De Ridder. “We re-submitted the plan on 6 December 2012.”

The wind farm is expected to deliver energy to 8,900 households. The five wind turbines will be owned by the cooperative: by the local community in other words. They will be producing their own 100% green energy. “Passing over the control of our energy system is something I firmly believe in. The enthusiasm for the project was massive from the start. The interest in Nijmegen wind shares surpassed expectations.” To become a member, residents had to take a financial stake. “That is how we raised the capital for the wind farm and were able to start building in 2015.”

The wind farm officially came on stream on 1 November 2016. The fifth turbine is currently being developed. And there are more plans, says De Ridder. “This project has given us a taste for more. Together with Liander, we are looking into what else can be done in the context of this project. Solar energy could still be fitted in, for instance. So we are now exploring ways of connecting solar and wind to a single cable.”

Zero energy project

By making the built environment energy neutral, we can make a major contribution to the achievement of the CO_2 objective. But that is a huge challenge. Alliander has therefore joined forces with housing associations and builders in a zero energy initiative called 'Stroomversnelling'. The construction of 11,000 zero energy homes got underway in 2016. These homes produce as much energy as they consume, leading to zero energy usage. The strategies include high-quality insulation, energy-efficient installations and renewable generation with on-site solar panels. The aim is to have a total of 4.5 million zero energy homes by 2050. So the pace must be stepped up.

Autonomous networks

Within Alliander, we are pursuing innovative solutions to facilitate the energy transition. As local generation continues to increase, autonomous systems will become more commonplace. Examples are the energy supply on the 'Marker Wadden' islands, which we studied in 2016, and the island network at Schoteroog, which was ultimately called off.

Marker Wadden

The Marker Wadden are islands in the Marker lake that are currently being constructed, primarily to restore the flora and fauna in the lake. The Society for the Preservation of Nature (Natuurmonumenten) has received the government concession to create and manage the islands. In 2016, we teamed up with Natuurmonumenten to discover how we could supply renewable energy to the future buildings on the island, such as the port and the research centre.

Schoteroog

Another project in 2016 was the Schoteroog island near Haarlem. We developed a plan for an autonomous island network for four local businesses. The absence of a traditional connection between the island network and the existing energy network meant we had to think out of the box. Local arrangements were necessary with parties who produce, store, distribute, consume and balance energy. Unfortunately, during the preparations in 2016, it proved impossible to find a solution that reconciled the intentions of the concept with existing laws and regulations.

Energy storage

Matching supply and demand of electricity is becoming increasingly 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. We enter into partnerships and initiate pilot projects. One example in 2016 concerned the realisation of a local community energy storage battery. On sunny days, customers with solar panels feed their surpluses into our network. The problem is that our network cannot cope with the steadily growing amount of fed-in energy. The community battery is a local collective solution for solar overproduction. Consumers can store the energy they have generated in the central battery for later use. The first pilots with this local community battery are scheduled for 2017.

Flexible energy market tested in Heerhugowaard

Solar and wind energy is increasingly being generated locally. More and more people are also making sustainable choices, such as electric vehicles or heat pumps. This affects the design of the local network, says project manager Moniek Thissen of Alliander. “How do we deal with energy shortfalls and surpluses? Upgrading the network is not always desirable. Another solution is to encourage consumers to opt for flexible and smart energy management. We used the USEF (Universal Smart Energy Framework) market model for the first time in a smart testbed project ("Energiekoplopers").

Smart electricity usage

During the smart testbed pilot in Heerhugowaard, we tried out a new market model for flexible energy trading. “USEF facilitates flexible trading based on multiple defined roles. We studied the value USEF can offer each party in this model.” Until the end of 2016, the model was extensively tested in Sun City (Stad van de Zon), a sustainable neighbourhood with lots of rooftop panels and zero energy homes. Thissen: “Over 200 households were equipped with a smart device for using electricity flexibly. For instance, the device instructs electric boilers to heat up extra warm water when the sun shines. This creates a warm water buffer that can be used later in the day.” The pilot was a success: flexible usage prevents severe congestion in the network and, as such, is valuable for the network operator. The project also provided insight into the interaction between all market participants. “For one thing, it became clear that consumers are happy to contribute to flexible usage, provided it is convenient and hassle-free. All we need to create a fully-fledged market is an intermediary between the supply and demand of energy, but this intermediary should be able to deliver the desired flexibility.”

Nationwide upscaling

The pilot helps the government, commercial partners and the sector to take the next step towards the future. “Once we actually start building the model, the challenge will become tangible,” says Thissen. “Having done this on a small scale, we now want to roll out the flexible concept in the new national Dynamo project. With more participants and more local differences. By starting small and expanding step by step, we aim to build a bridge from testbed to open market.”

Pillar 2: new open networks

Depending on customer demand, alternative infrastructures may be more efficient than traditional networks. Alliander is investing in the development of alternative energy networks, such as heating networks and e-charging infrastructure. Facilitating the market forms an important part of our corporate social responsibility. It is therefore crucial that this new infrastructure is accessible ('open') to everyone, both to customers and suppliers, on equal terms and that the user has a choice of suppliers.

Lelystad Airport and direct current

Lelystad Airport is being transformed into an innovative airport for holiday flights. We are currently building our first-ever public DC (direct current) network for the airport and adjacent business park. The public nature of the network means that it is open to multiple parties. We started designing this DC network in 2016. The new local network brings supply and demand together without any intervention of alternating current (AC). Almost every electrical appliance uses direct current. But the power outlet supplies alternating current. Many appliances therefore have a converter to change alternating current to direct current. And this costs energy. Renewable energy generated with solar panels is also direct current. So this, too, is initially converted to alternating current. A direct current network eliminates these two intermediate steps, and this saves a lot of energy. The potential savings in Lelystad are estimated at 10%.
With this first-ever public DC network, we at Liander want to learn and determine whether, where and how DC networks can complement our mainstream AC network. By customising the energy system to local needs, we help our customers with their renewable energy choices, while keeping the energy supply reliable, accessible and affordable for everyone.

Role in the heating transition

The energy transition is forging ahead in the field of heating. We are now entering a new phase. A natural gas-free energy supply is steadily becoming reality. Municipalities are taking matters into their own hands. The scope for alternative heating sources is being widened, in both their thinking and policies. Alliander DGO and Liander are working intensively together to find appropriate solutions for local issues. In 2016, for instance, they started preparations for pilots with natural gas-free neighbourhoods in Amsterdam and Leiden. The municipality of Ede was given advice for the avoidance of costly disinvestments in new-build areas by creating more synergy between the local heating company and the network operator. And at neighbourhood level, we helped community cooperatives prepare for their future role as suppliers of heating. These included cooperatives in Culemborg (Thermobello), The Hague (Vruchtenbuurt), Arnhem (BuurtGroenBedrijf) and Amsterdam (Meer Energie).

Heating Network in Hengelo

In 2016, Alliander DGO and energy supplier Ennatuurlijk took over Warmtenet Hengelo, a heating company in the municipality of Hengelo. This partnership agreement paves the way for the construction of the main pipeline to the heating network. Once the pipeline is in place, residual heating of AkzoNobel which has so far remained unused can serve to heat residential and business premises. Ennatuurlijk will act as supplier, while Alliander DGO will build and operate the network. This set-up ensures that the heating network can be expanded in the coming years.

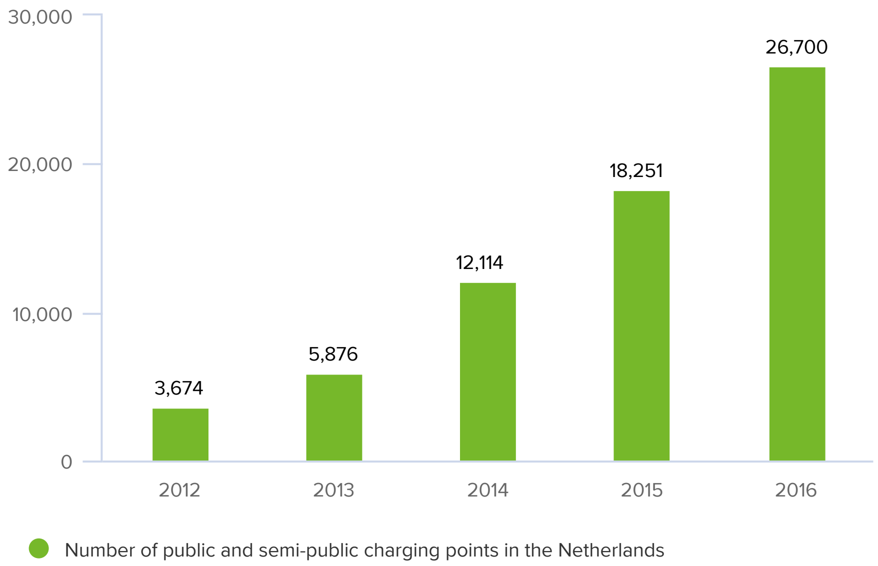
Emission reductions

The heating networks in the municipalities of Hengelo and Nijmegen have greatly reduced the usage of natural gas, leading to substantial savings in CO^2 and particulate emissions. In April 2016, we inaugurated the biogas and industrial water pipeline between Industriewater Eerbeek (IWE) and the DS Smith paper-manufacturing factory. With this connection, both biogas and the treated water can be used directly at the factory. The resulting annual savings amount to 700,000 m3 of ground water and about 5,000 tons of CO_2 emissions.

Professionalisation of electric mobility

Our subsidiary Allego is investing in new open e-charging infrastructure for electric mobility in the Netherlands, Germany and Belgium. The electric mobility sector moved up a gear in 2016. The number of electric vehicles expanded again (to 100,000 in the Netherlands) and car manufacturers launched new electric models. We expect to see a new generation of fully electric vehicles that are able to drive long distances coming onto the market from 2018. One important condition for further growth is the ample availability of publicly accessible e-charging stations for electric cars. Allego is aiming for an open infrastructure based on interoperability within the EU. An open infrastructure entails that e-drivers can use all charging stations and have a choice of suppliers.

Number of public and semi-public charging points in the Netherlands[1]



1 Based on publicly available information from the National Enterprising Netherlands.

Pillar 3: digitisation

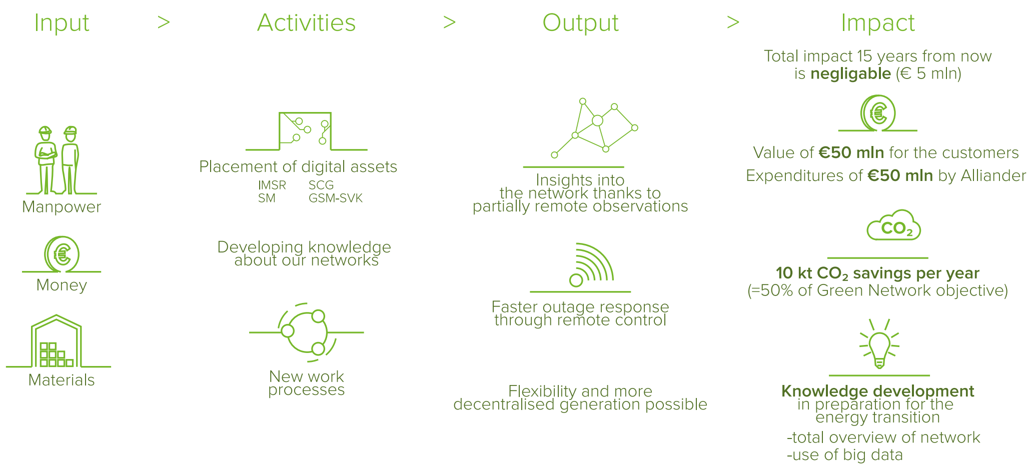
Advancing ICT is rapidly unlocking new digital opportunities for managing our networks. Thanks to the installation of smart meters, sensors, remote-controllable switches and a telecom network, we can respond quickly and at acceptable costs to the radical changes taking place in the energy system. Digitisation allows us to quickly detect and even prevent faults, make more targeted investments in the networks and offer customers the data they need to make sensible energy choices. The benefits for customers include reduced outage duration and a more customised service. In this way, we can often restrict the scale of costly network upgrades. Alliander has therefore opted for extensive digitisation of its networks, using state-of-the-art innovations.

Digitisation programme under pressure

We are currently falling short of our digitisation ambitions. We had set ambitious digitisation targets for the year under review, precisely because this is a crucial development. One target was to complete 95% of our planned digitisation programmes, but we only achieved 8%. The main reason was that the renewal projects were more complex and labour-intensive than anticipated. More time is necessary to bring these projects to a successful completion. In addition, we had initially planned to commence the roll-out of smart switching cabinets at our stations in 2016, but this application took longer to develop than foreseen. A shortage of technical, engineering and implementation capacity also prevented us from realising the planned digitisation of medium-voltage stations in 2016. Nevertheless, the roll-out of intelligent networks continues: in 2016 we stepped up the pace of digitisation in the northern part of the province of Noord-Holland and started on the first intelligent network in the province of Gelderland. We will press ahead with these efforts in 2017.

Impact case: Digitisation in the north of Noord-Holland

In the northern part of the province of Noord-Holland, Alliander accelerated the digitisation of its network. In view of the ample supply of local solar and wind energy, this region is a good place to study the impacts of our digitisation strategy. This impact analysis compelled us to determine very precisely what savings we expect from the smart meter, the influence of local generation on our grid losses and, above all, the expected avoided investments in cables. As expected, the financial effects will only become visible once the energy transition starts to accelerate after 2030. The positive effect in terms of CO_2 for our customers is already visible during this period.



Smart meter: the progress so far

One crucial link in our efforts to create a more intelligent infrastructure is the smart meter. Customers are increasingly making their own energy decisions. The smart meter helps customers to save energy and use it when costs are low. Or to feed energy into the grid when the electricity price is high. The aim is to offer all our customers a smart meter by 2020. We are doing this in close cooperation with our partners, such as contractors. In 2016, meters were offered at 428,000 addresses, which means we met our target for 2016. Every month, we display the progress made on our website.

During the procurement process for the large-scale offering of the smart meter, Alliander not only considered quality and costs but also corporate social responsibility aspects such as 'fair' electronics and 'circular' design. The results of these CSR efforts were presented at various events in 2016.

Dilemma: role of network operators in offering the smart meter

In the year under review, a lot of attention was devoted to an investigation into the smart meter by the Netherlands Environmental Assessment Agency (PBL). One conclusion of the PBL was that market parties have so far failed to convince customers of the benefits of an energy management tool that can be connected to the smart meter. The customer is losing out as a result. This is clearly disappointing, because we want the customer to emerge as the winner. The PBL has identified three possible strategies: continue the current policy, revise the policy or experiment with a new approach. As things stand, the role of the network operators is confined to placing the smart meter. However, they could be given a more active role in encouraging public acceptance. For instance, by making real-time usage data directly available so that customers obtain instant insight into how they can save energy. The market can then offer energy-saving solutions in response to the customer's wishes.

Data security and cybersecurity

In 2016, the network operators were collectively confronted with the presumed theft of customer data from the central customer data registers (EDSN). This resulted in strong regulatory and political criticism. And rightly so. For too long, market parties had relatively easy access to the registers containing personal data on connections, annual usage and energy contracts. Customer data must be safe, without impairing the quality of service during changes of address or switches of supplier. Appropriate measures were taken (see also What have we learned?).
The digitisation of the energy networks and the use of the smart meter involves a different type of data security. Our cybersecurity experts keep track of the latest developments and introduce the newest data protection methods. The fight against cybercrime is never-ending and requires permanent vigilance and training. Knowledge from informal sources, such as hackers, is also helpful. We analyse attacks on systems of e.g. banks – also a topical issue in the Netherlands last year – and network colleagues elsewhere in the world. Alliander works closely with the National Cyber Security Centre and regularly carries out spot checks to ensure employees handle data safely.

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 for the performance of our traditional daily work and to realise our network ambitions. In 2016 we spent about € 795 million on the maintenance, replacement and construction of our energy infrastructure. The investments in the networks are tailored to the specific priorities, needs and characteristics of each region. An overview of our investments in the energy networks in each region is available on our website.

Workload puts pressure on performance

In 2016, we were unable to get through all the work we had planned to do. The reviving economy and accelerating energy transition have led to a growing demand from customers. Moreover, the labour market for technicians is tight. That is why we had to set priorities in the work we were able to do. As a result, the realisation of our objectives for network digitisation was temporarily put back. In 48% of the cases we achieved the interim milestones for our 25 most important projects. Long integration procedures and the involvement of local parties were among the chief causes of delays.

Our results in the regions

Noord-Holland

Our activities in the northern part of the province of Noord-Holland included the development of new stations in order to connect wind farms to the energy network. In the Haarlemmermeer area, we are experiencing a surge in demand for capacity due to the arrival of data centres and the expanding greenhouse sector.

Amsterdam
One ongoing activity over the past years in Amsterdam is the reinforcement of the electricity networks in the Zuidas business area in order to meet the growing demand for electricity. In the year under review, we also expanded the infrastructure in the Watergraafsmeer and Bijlmer districts to accommodate new data centres.

Zuid-Holland
Work on the existing energy infrastructure was carried out in various places, including Katwijk and Leiden. Another focus was the construction of new energy networks in the Zuidplaspolder to meet the future demand for electricity.

Friesland
The activities in the Friesland region include connections for solar parks, including one on the island of Ameland in 2016. We also expanded the infrastructure in Heerenveen and Oudehaske to accommodate the growing demand for electricity from the booming agrifood business.

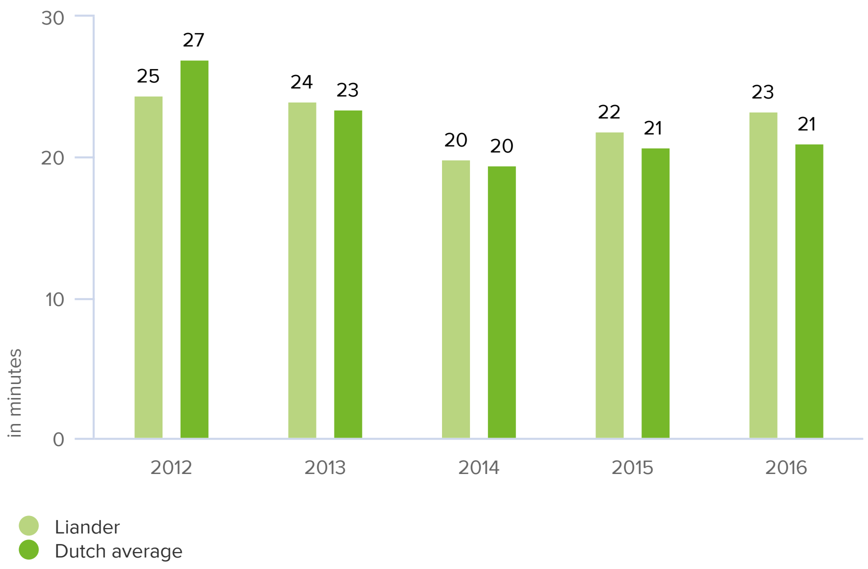
Flevoland
In Flevoland, Liander is contributing to the large-scale restructuring of wind farms. In 2016, new connections were laid throughout the province for this purpose. Moreover, we shifted the electricity cables and gas mains along the A6 to facilitate the construction of new traffic routes.

Gelderland
In Gelderland, various large customers were connected to a new switching station in Nijmegen. In 2016, we also expanded the infrastructure in the Bommelerwaard area to facilitate the growing energy demand from market gardeners. Liander also connected the networks of various villages to each other for additional security of supply in the future.

Province	Electricity		Gas		Electricity + gas	Smart meters
Amounts in € millions	Expansion	Replacement	Expansion	Replacement	Total	Placements
Noord-Holland	64	30	8	19	122	203,878
Amsterdam	30	18	7	31	86	115,292
Zuid-Holland	19	19	5	13	57	50,704
Gelderland	55	19	10	24	108	188,557
Friesland	14	3	1	2	20	39,963
Flevoland	21	7	3	7	38	67,023

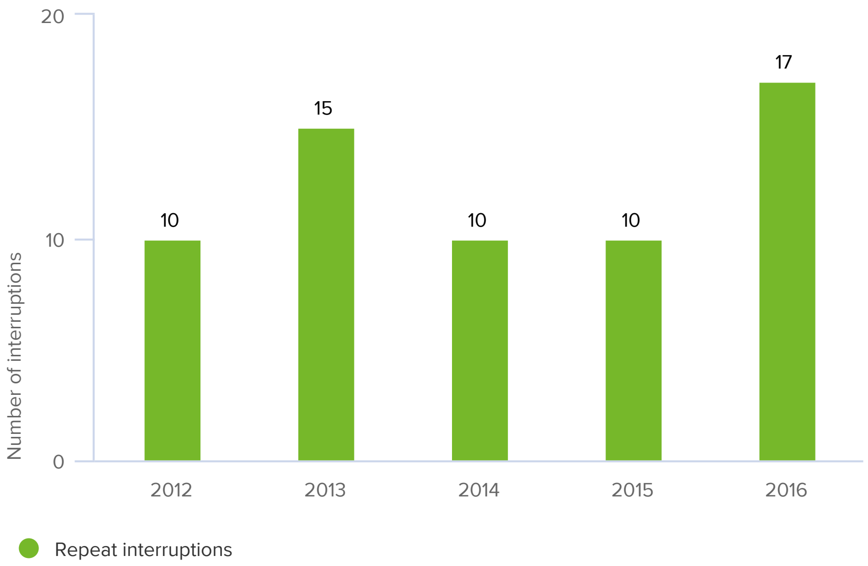
Reliability of supply

Annual electricity outage duration



Investments and maintenance are designed to maintain and improve the reliability of our energy supply. In 2016, customers were without electricity for 23.3 minutes (2015: 21.9 minutes) on average. We thus failed to achieve our target for 2016 (<21 minutes). Two important measures for increasing the reliability of supply bore fruit. The Smart Cable Guard was deployed on a larger scale and in Amsterdam we put a lot of effort into the preventative removal of a certain type of fault-sensitive mid-voltage connection sleeve. However, due to the economic revival, the amount of earthworks increased in 2016, and so did the number of excavation-related incidents. This development, along with three major outages, jointly explain why our score was below the target.
In January, Amsterdam was hit by an exceptionally extensive low-voltage interruption as a result of power cables being torn during third-party excavation work. The other two major outages occurred in high-voltage stations in Alphen aan den Rijn in February and in Arnhem in July. The cause in Alphen was an engineering fault, whereas a switching error was to blame in Arnhem. Liandon investigated these outages and took measures.
The number of postcode areas with more than five interruptions per year was slightly above target, namely 17 (maximum of 16), partly because other objectives were given priority.

Repeat interruptions



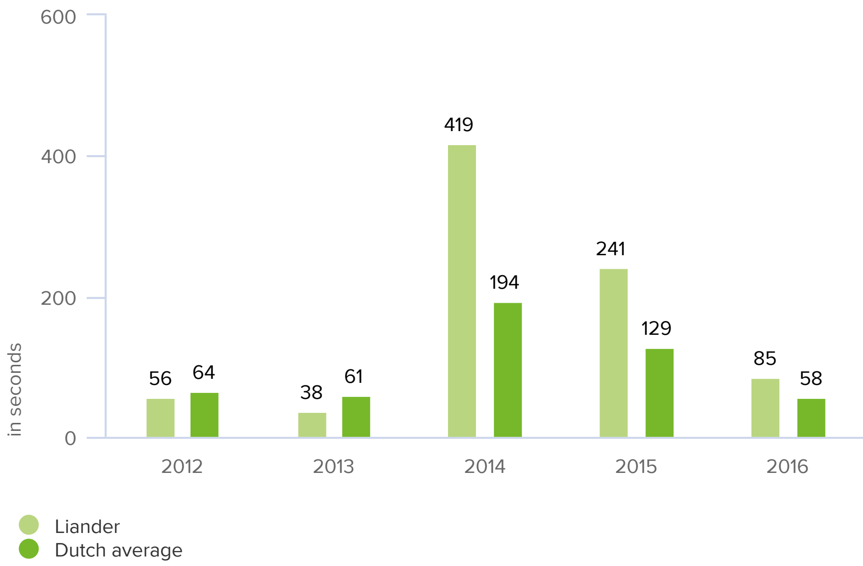
Smart Cable Guard deployed more often

Smart Cable Guard (SCG) is a system that detects and localises weaknesses in the underground network before these lead to interruptions. A single measurement is sufficient to check a section of several kilometres, with defects being localised within an accuracy of several metres. This saves time and costs spent on repairs to the electricity supply. Over 130 systems are already operational. After the small-scale roll-out, the deployment of SCG was expanded and improved. SCG clocked up 15 successful results in 2016. In 8 cases, SCG correctly pinpointed the defective component that had caused an energy interruption. In 7 cases, an energy interruption was pre-empted. SCG thus prevented the interruption of an estimated 410,000 usage minutes.

Gas outage due to vandalism

In 2016, households were without gas for 85 seconds on average. In Alkmaar 10,000 households were deprived of gas due to an external cause on 27 October. The gas outage occurred when automated safety mechanisms were triggered after vandals had broken open a ‘gas cabinet’ of Liander with a crowbar. Liander reported the incident to the police.

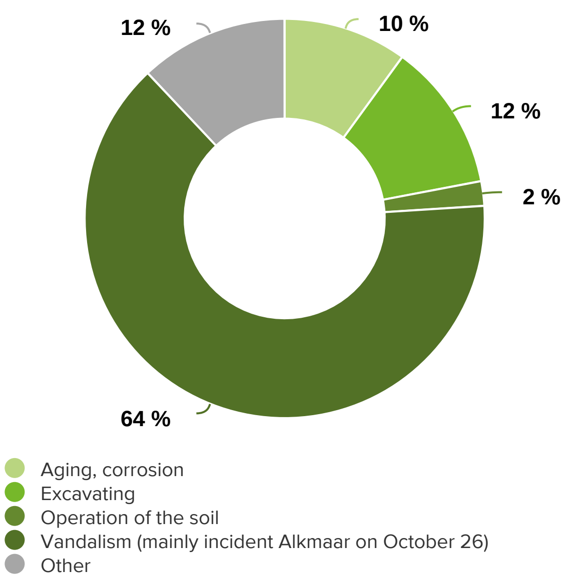
Outage duration of gas



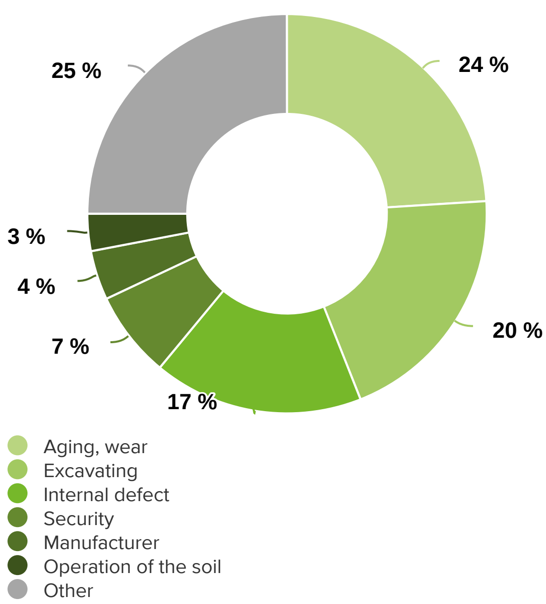
Gas explosion on Urk

A gas explosion on Urk destroyed several houses early in June. Six families lost their homes and several persons were injured. One person was admitted to hospital. The gas explosion occurred while a third party was working on the sewage system. During this work, the gas mains were damaged, causing gas to flow into the sewer. By the time Liander's response engineer arrived on site, it was too late to close the leak. The explosion followed shortly afterwards, leaving 24 homes without gas for an evening or, in some cases, part of the weekend.

Causes outage gas



Causes outage electritity



Tariffs for network operation and reduction of sufferance tax

The network operators are tasked with providing energy transportation, connection and metering services. 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 2016 were comparable with the prior-year rates. 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 rise. 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 2016 amounted to € 149 million (2015: €110 million).

We see sufferance tax as a non-transparent measure of municipalities that raises tariffs for all customers. Moreover, the levy leads to an unfair distribution of the costs. Alliander therefore welcomes the submission of a bill seeking to restrict the authority to levy sufferance tax. The proposal means that municipalities may no longer raise their rates and have to reduce over the next five years.

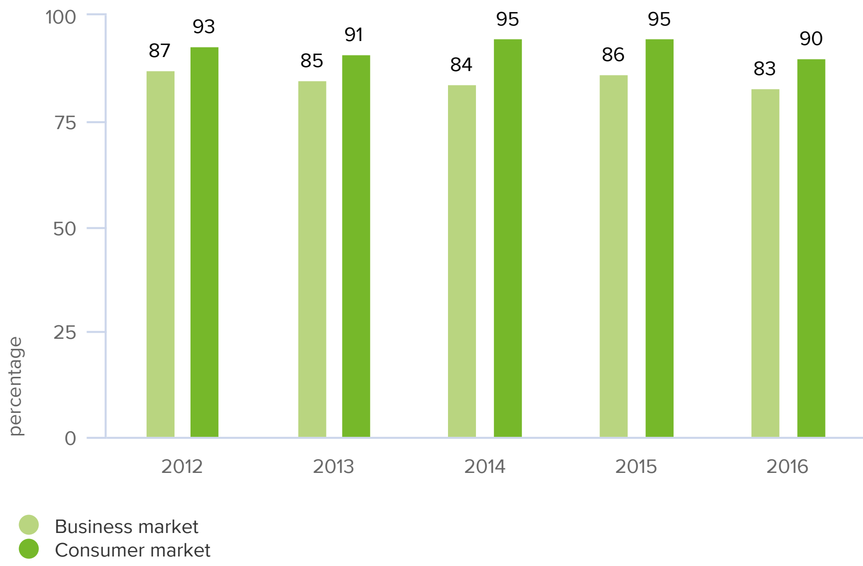
Dilemma: how long should we still build gas networks?

Every year we invest tens of millions of euros in the replacement and construction of new 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 (hybrid) pumps) is also gaining ground in new residential projects. The Energy Agenda, as presented in late 2016, also indicated a strong reduction of natural gas use in the built environment and encourage integration of low-CO_2 electricity and heat. Despite this outlook, 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. To be climate neutral by 2050, the Netherlands must replace the existing gas networks with alternative heating solutions within the next 35 years. Hence our question: how long and where should we still build gas distribution networks?

Customer satisfaction

The satisfaction of our customers is largely determined by the convenience we offer. Our customer satisfaction scores in 2016 were 90% for the consumer market and 83% for the business market - in both cases a slight fall compared to 2015. Factors that drive customer satisfaction are the quality of service in relation to queries & complaints, billing, realisation, cost transparency and price perception. The duration of outages and the supply of information obviously also play a major role. One important reason for dissatisfaction in 2016 was the handling of complaints and queries. To remedy this, the complaints handling process was reorganised and staff were given communication skills training.

Customer satisfaction



New measurement method from 2017

Over the past years, Alliander measured customer satisfaction with the aid of surveys. However, this provided too little input to enable the organisation to learn and improve. That is why customers are now asked to provide feedback immediately after we have completed our work. These measurements can be easily linked to the various processes within our organisation. It has now been decided that, starting from 2017, the outcomes of this Net Effort Score (NES) will be used to manage our performance. From mid-2017, the score will also be updated every month on our website.

Online customer service

Alliander offers services through traditional channels such as the telephone, but also via online media. Last year, we expanded our website information and functionalities as well as our online platform (mijnliander.nl). Customers can now log in to check for service outages in their area, report faults, make online payments and approve contracts. In addition, we have implemented a webcare programme and introduced new contact channels (WhatsApp and Livechat).

Benchmark survey: the best online service

In 2016, the services of network operators Liander, Enexis and Stedin were compared in a benchmark survey. As in the previous year, Liander achieved the highest score. However, the differences between the surveyed parties are steadily narrowing. The survey found that our information is effectively signposted and our written communications are clear and understandable. There were also points for improvement: information is sometimes too detailed or fragmented.

Employees

Alliander employs about 7,150 people. Together they secure a reliable energy supply. We offer them a safe and healthy working environment that they can be proud of. In this way, we challenge them to get the best out of their knowledge, expertise and creativity.

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

Objectives and results related to employees

Lost Time Injury Frequency (LTIF)

2016 OBJECTIVE

2.1 or lower

2016 RESULT

2.0

Employee absenteeism

2016 OBJECTIVE

at most 3.9%

2016 RESULT

4.1%

Employee survey score

2016 OBJECTIVE

at least 75%

2016 RESULT

70%

Active safety culture percentage

2016 OBJECTIVE

at least 30%

2016 RESULT

34%

Women in leadership positions

2016 OBJECTIVE

at least 26%

2016 RESULT

24.7%

People at a distance from the labour market

2016 OBJECTIVE

at least 100

2016 RESULT

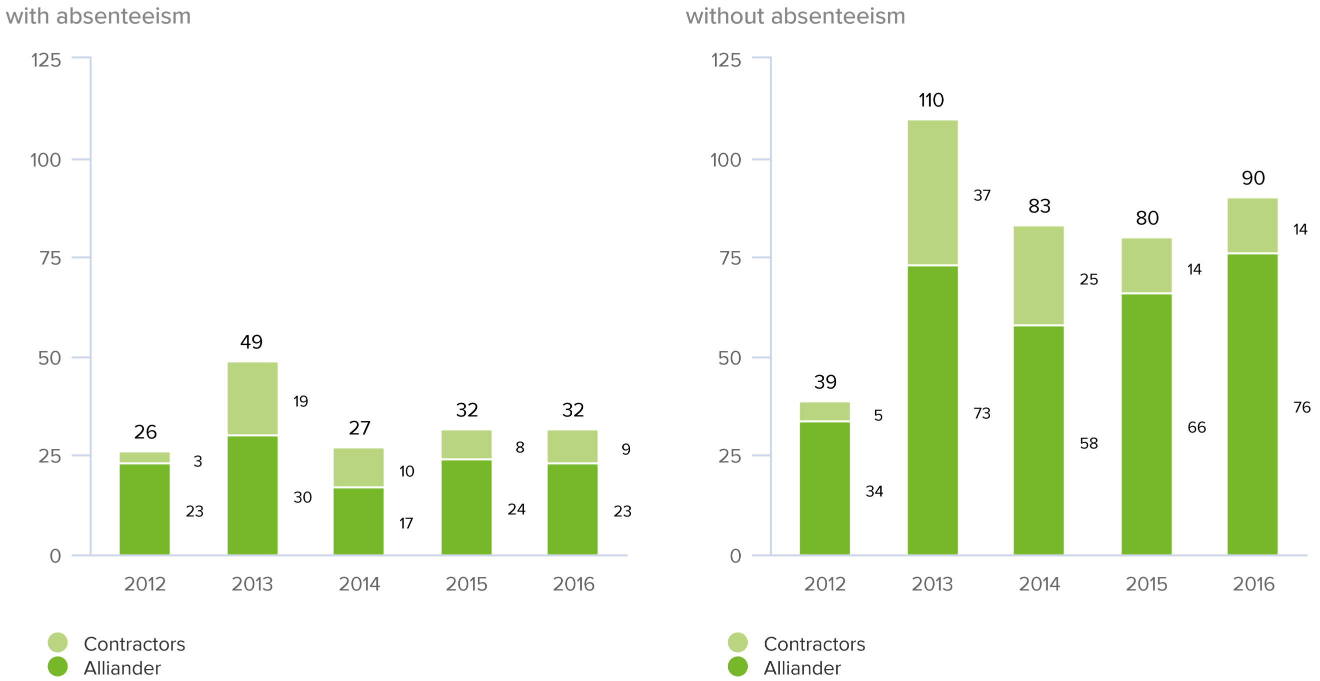
104

Health, employability and diversity of our employees touch on many complex challenges. For one thing, we were confronted with a vast amount of work in 2016 – more, in fact, than we were able to handle. Another challenge was to maintain our competences in a sector that is changing rapidly and constantly demanding more and new skills from our employees. In 2016, there were also many reorganisations and our social plan came to an end. Finally, we needed to raise health & safety awareness across the company. All these themes demanded the undiminished attention of our organisation.

Safe working practices

In February, a colleague at Liandon died after an accident during voltage transformer measurements at the substation in Elst. This made a deep impression throughout the company. Liandon commissioned an independent investigation into the immediate and underlying causes of the accident. Based on the findings, additional measures were taken to further enhance the safety of measurement work. Liandon tightened up the instructions for safe measurements and the lessons learned were shared in meetings at sector level. In addition, safety risks and measures are now specifically addressed during the pre-job meetings at the start of every day. It is good to note that effective steps to improve safety were made in the past years, but every incident is one too many.

Number of accidents



In 2016, 23 accidents at Alliander resulted in absenteeism (2015: 24). These incidents underscore the risks of working with gas and electricity – both for our employees and for everyone else in the vicinity of our work. Safe and healthy working practices must therefore be given top priority at all times, with no concessions being made. Whilst technological solutions can help to increase safety, we must above all change our thinking and avoid risks pro-actively. 'Everyone safely home' remains our objective.

Everyone safely home

Alliander works continuously to raise safety awareness at every level in the organisation. Training and instructions are provided to prepare colleagues for their work on technical installations, and personal protective equipment is made available to guarantee their safety. Our aim at Alliander is to make safety integral to our thinking and acting – from designer to purchaser and from engineer to manager.

Safety Programme

In 2016, Alliander launched a company-wide safety programme to increase the safety of customers, employees and suppliers. All safety-related aspects are covered, including processes, components, training, safety culture, incident follow-up and investigations. The objective is: 'Everyone safely home'.

Safety days for families and partners

Following the fatal accident in Elst in 2016, Liandon took the initiative to organise family and partner days. During these informal days, family members are told about the work that their partner, father or mother does and how we ensure they can do their work as safely as possible. We also explain the ins and outs of the energy world and provide a guided tour of a substation. Safety is the recurrent theme. In 2016, seven safety days were held by different teams.

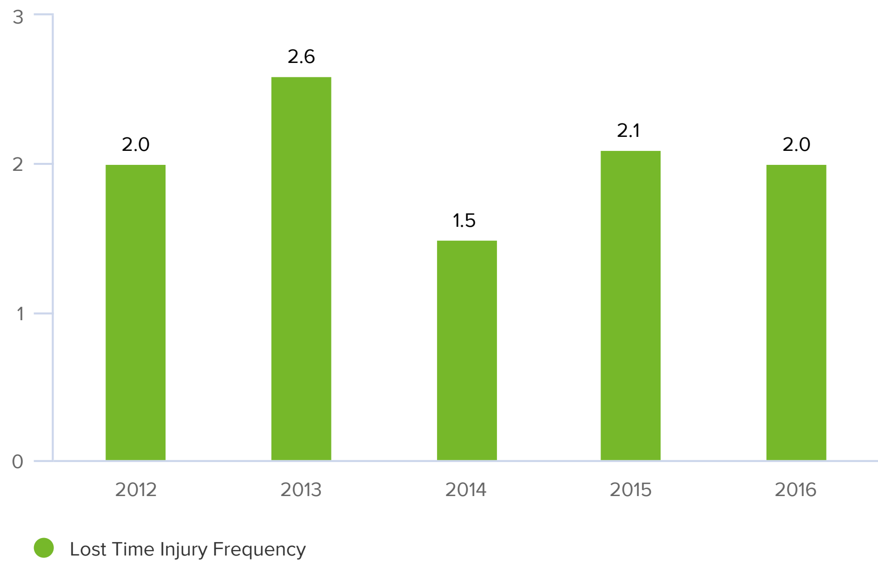
Safety in the energy chain

'Everyone safely home' is a pledge that also extends to colleagues of external parties we work with. Safe working practices are vital to prevent incidents, as well as to ensure the safety of the colleague responsible for the next step in the chain. The placement of smart meters is a good example. Between now and 2020, Liander will place thousands of meters at customers every week. To Alliander, safety comes before the correct and fast placement of smart meters. Our smart meter engineers therefore received extra briefings on safe working practices. Last year, safety ambassadors were appointed to promote safety awareness within the organisation.

Monitoring safety with Lost Time Injury Frequency

We use the Lost Time Injury Frequency (LTIF) rate to measure our safety performance. This expresses employee safety as the number of accidents resulting in absenteeism per 1 million worked hours. In 2016, the LTIF stood at 2.0. This was within our target for 2016.

LTIF



Safety ladder score unchanged in 2016

Within Liander and Liandon, we periodically measure the level of safety within our organisation. The tool we use for this purpose is the safety ladder. In the year under review, 34% of our operations scored 3 or higher on the safety ladder. The objective is and remains 30% or higher. Due to a change in the measurement method, the score is hard to compare with 2015. The safety ladder helps us to improve the safety culture within our company.

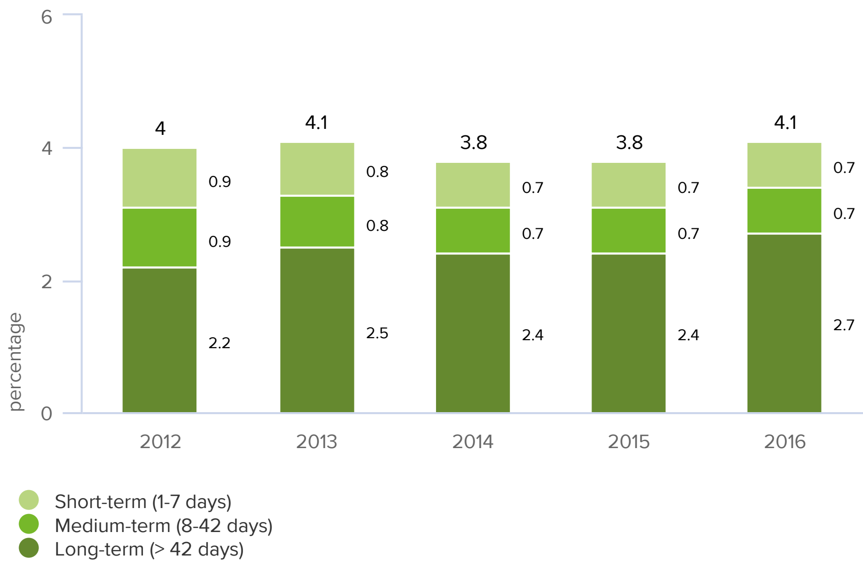
Fit and healthy employees

Alliander is committed to long-term employability. The challenge is to ensure that our employees remain sufficiently fit, motivated and skilled for their work, both now and in the future. To complement the existing employability interviews between managers and employees, Alliander has now introduced a long-term employability budget along with a broad range of supporting activities and resources.

Absenteeism

To monitor whether we are keeping our people sufficiently motivated and healthy, we conduct periodic medical examinations. We also actively measure absenteeism. In 2016, the absenteeism rate was 4.1% (2015: 3.8%). The average for our sector in the Netherlands is 3.5%. In 2016, we saw an increase in the long-term absenteeism as well as in the duration of absenteeism. But the number of times that employees reported sick declined.

Absenteeism



Successful start for long-term employability budget

Under the current collective labour agreement, employees with a permanent contract are entitled to a long-term employability budget. This budget of € 500 gross per person has been available since 1 January 2016. Employees can use it to finance activities or resources to promote their general health, career development or workplace health. Examples are gym subscriptions, sports supplies, training courses or workplace adjustments at home. In the first year, 51% of the employees took up the long-term employability budget.

Health-aware employees

Alliander Fit is an initiative to ensure that employees are aware of the importance of remaining fit and healthy. The programme started in 2014, but was opened up to all employees in 2016. They set personal targets for their physical and mental health and have access to free activities and facilities to achieve these targets. There are special gym hours as well as walk-in hours and workshops where colleagues can ask questions or contribute ideas on health-related issues. Each business unit decides which themes are relevant and where the biggest challenges lie. Teams that work shifts, for instance, can devote attention to the adverse effects of irregular hours on sleeping and eating patterns.

Maintenance in cramped spaces

At a stone's throw from the Rozengracht-Marnixstraat road junction in Amsterdam, a 10-metre-long trench has been dug in the pavement. Rob Aouden, a Liander engineer, is working with his mates Andor and Patrick to replace a piece of cast-iron gas piping.

Car engines roar, tram bells clang, cyclists rush past and the occasional fire engine pulls out with a screaming siren. Hardly a quiet workplace, but Rob shrugs his shoulders. “A routine job, this,” he says. “We're working on a project to remove all cast-iron gas pipes lying within one metre of the front elevation and replacing it with PE. It will take a day or two.” The section dug up that morning is lying on the pavement – after 40 years in the ground. The gas supply to a nearby café has just been switched back on. Rob laughs: “The café owner had asked to be reconnected before ten o'clock. So we started at 6 this morning. He needs to heat up his croissants, doesn't he?”

A traffic control supervisor – hired by Liander – helps a cyclist to cross safely. Rob points to the signs, fences, traffic control supervisor, protective clothing and special overalls against polluted soil. “Each of us has been checked for working in polluted soil and we are all trained and qualified. Safety comes first, for ourselves and everyone around us. We all want to return home safely, don't we?” But the quality of the work is obviously also crucial. Rob regularly makes photos. “We want to show Liander, but also the local authorities, exactly what we did and how we did it.” Rob and his colleagues pull, haul, dig, and scrape their way through the mud and sludge. It's a real squeeze, with only a few decimetres between all the other gas, water and electricity mains. “It's not too bad here," Rob says mildly. “Other places in the city centre are so tight you have no space to move at all underground. And fortunately, I'm still fit and agile.”
The engineers push the new pipeline into position, clean it and connect the welding equipment. It basically melts the pipe sections together. After 20 minutes, the joint has cooled. Job done! So how long does Rob expect to continue plying this trade? “The municipality wants the city to be gas-free within 30 years. New areas are getting district heating systems, but there is still no solution for the city centre. So the gas network is here to stay for some time to come.”

After this afternoon, Rob has a short weekend. On Sunday, he's back on night shifts for two days at the Leidseplein. The work there can only be done after the trams have stopped running. “Working nights is nothing special. Sometimes we get called out of bed for an emergency, and then you have no choice. Not so long ago, the phone rang at four in the morning. There was a smell of gas in a basement storage unit. It turned out to be a leaking moped. I wasn't amused.” Rob removes the pressure gauges from the mains, Andor grabs a shovel, Patrick climbs onto the digger. A few final photos before the hole is filled in. “A quick call to the contractor for the repaving job, and that's that. By this afternoon, you wouldn't even know we had been here.”

Alliander as employer

Alliander has the ambition to be a top employer. A ‘great place to work’. At a top employer, the employees trust the people they work for, are proud of what they do and enjoy working with colleagues, customers, suppliers and partners.

Employee satisfaction

Every year we measure how satisfied our employees are about working for Alliander. Teams and departments determine the follow-up actions. The survey in 2016 elicited a high response rate of 79% (2015: 67%), which underscores the engagement of our employees. At 70%, the Trust Index – the average of the main categories of the great place to work survey – was lower than the targeted 75%. Aspects that employees were less satisfied about were management credibility and lack of respect. But many said they were, above all, proud to work for Alliander (74%) and praised the company for its honesty (73%).

Training & Development

Every year, our employees commit to personal objectives with their manager. That way, they continue to work on their professional knowledge, personal development and career opportunities. In 2016, Alliander invested 3.3% of its payroll costs in employee training (2015: 2.8%).

Training Centre

Within Alliander, we have a dedicated training centre to help employees develop their skills in key areas such as technology, safety and leadership. We ensure that everybody is and remains optimally equipped and is able to meet the challenges arising from the energy transition. Finding high-quality staff is also a challenge from a risk management perspective. Alliander therefore actively develops competences through trainee and talent management programmes. One specific initiative in this context is 'Alliander Leert!: a neuropsychological approach centring on individual learning abilities and preferences.

Safety Training

Our safety training underwent a metamorphosis in 2016. The reasons included the introduction of new guidelines for medium and high voltages and a new partnership with Enexis for the examination of our employees. In the year under review, 1,485 safety training courses were taken up (2015: 1,755).

Demand for technical training

In 2016, a new training programme was set up together with regional training centres in order to accelerate the training of field service engineers. This intermediate-level training programme enables us to meet the acute demand for technical training. It is the first course where Alliander Opleidingen not only provides teachers for practical classes but also for theoretical subjects.

Alliander Foundation

The Alliander Foundation encourages and helps our employees to engage in voluntary work. 2016 was a successful year for the Foundation. Almost 1,100 volunteers took part in a range of activities (in 2015: 976). The Foundation provided funding for 73 different projects (2015: 75). Traditional team initiatives include doing odd jobs and taking part in social activities for specific target groups. A new emerging trend is that more and more teams are putting their expertise at the disposal of charitable causes. In 2016, many activities were also undertaken for and with refugees. To mark its tenth anniversary, the Foundation organised a successful initiative where employees could lend a comforting hand to lonely or ill people. 56 colleagues took part in this activity. 85% of the employees are proud that the Foundation supports employee volunteering.

New standby and outage response rosters

In September, a new system for rostering standby and outage response shifts took effect. Under the new roster, field service engineers work shifts according to non-standard time blocks and are more frequently on outage response duty. These changes received a lot of attention during the preparations. The new rosters are better aligned with peaks in outage work, which tend to occur between 4.30pm and 7pm. The aim is to avoid breaching the Working Hours Act wherever possible.
The new rosters have considerable impact on the personal lives of many colleagues. This is due to the increased number of standby and outage response shifts. Their working hours will also be more irregular, which may affect their work life balance. Another consideration is the financial impact due to the reduction of overtime. For these reasons, we evaluate the effects of the new rosters on a monthly basis and make adjustments if necessary. A large-scale evaluation is planned six months after implementation.

Alliander werkt!

The company-wide Alliander Werkt! programme – launched in 2010 – was completed at the end of last year. The programme was designed to promote an effective and enjoyable working environment for our employees. Strategies include offering flexible working opportunities, measuring performance based on output instead of attendance, and encouraging effective cooperation.
In the year under review, the Basisweg location in Amsterdam was given a makeover in line with the Alliander Werkt! principles. This was a major operation involving 900 employees. We also modified some of the Netcare offices, organised guided tours of our renewed building in Duiven for thousands of visitors and gave several hundreds of workshops to employees. In addition, the Alliander Werkt! programme prepared employees for their new working environment in the renewed Bellevue head office in Arnhem. An internal survey shows that Alliander Werkt! has demonstrably helped people enjoy their work more. Aspects mentioned by employees included better cooperation and focus on results. 84% say they are more productive and find Alliander a better employer.

Dilemma: making operational choices

The energy system is developing rapidly. The economy is gaining traction and demand for new residential and business connections is on the rise. Customers are asking questions about energy feed-in and energy saving options. At the same time, we must keep the networks reliable and safe 24/7. All this involves a vast amount of work – more, in fact, than we can handle. So priorities must be set. We come up with solutions, such as more efficiency, more outsourcing and more colleagues. But we still need to strike a difficult balance and decide how to allocate capacity to ensure our energy system remains reliable, accessible and affordable.

Changes in the organisation

Our organisation is constantly evolving. In 2016, for instance, we integrated the Customer & Market and Customer & Service Departments into a new business unit to raise our customer approach and market facilitation to a higher level. With the new business unit, we are better able to offer customers the best alternatives. In addition, several business units – such as Allego, Alliander Duurzame Gebiedsontwikkeling and Kenter – were given greater autonomy.

Career Centre

The career centre supports all employees who become redundant due to organisational changes, but also helps others who want to improve their CV and job application skills in preparation for the future. This is particularly vital in some areas. Administrative jobs, for instance, are regularly lost due to digitisation. With the aid of the career centre, the redundant employees are preparing for a new future inside or outside Alliander. In the year under review, 161 colleagues became redundant (2015: 141) and 177 people made use of the facilities offered by our career centre (2015: 152). With this assistance, 25 employees managed to find a new job or an appropriate alternative.

Employee participation

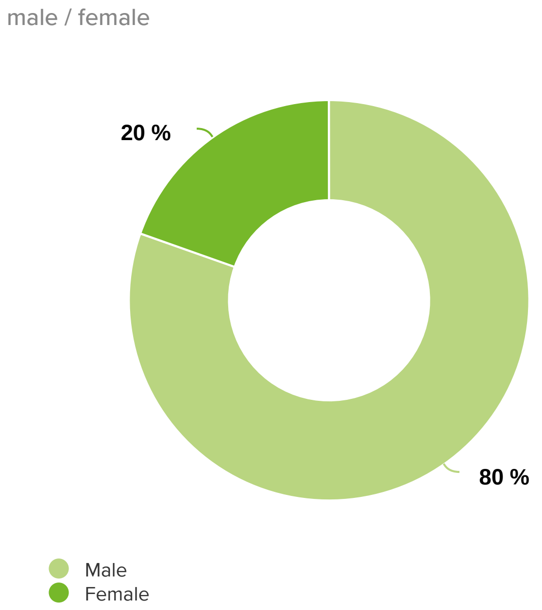
“The Alliander Works Council made a successful start to a new three-year term of office in 2016. The flat structure introduced this year has made the works council considerably more effective and efficient. This is necessary to keep pace with the constant changes in our working environment and the wider world. One important subject in 2016 was the renewal of the social policy in November. Long-term employability, prevention of redundancies during reorganisations and helping employees from work to work are key elements of the new policy. In 2017, the Alliander Works Council aims to continue making a proactive contribution to ensure Alliander remains an attractive employer.”

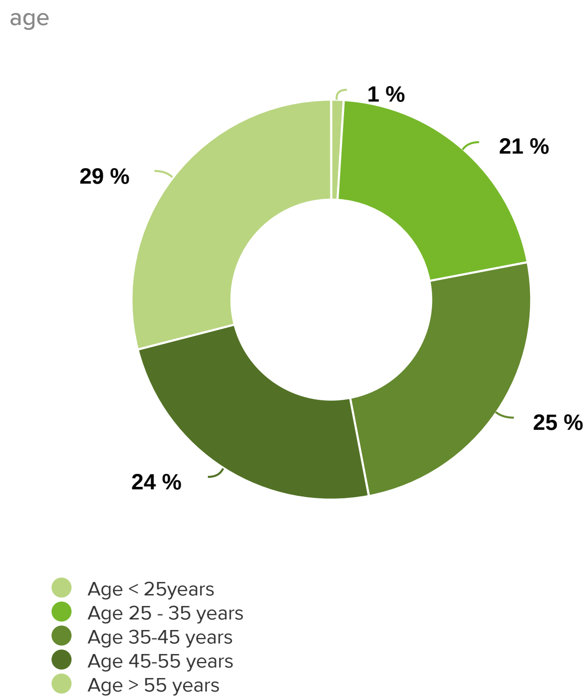
Wouter Koks, voorzitter Ondernemingsraad Alliander

Composition of the organisation

Alliander has a diverse workforce. In terms of competences – we employ many engineers and ICT staff, but also experts in change management and finance – as well as in terms of age, gender and cultural background. Every staff member makes a contribution to our common corporate objectives, based on their own personality, skills and experience.

Staff





An organisation where everyone feels at home

Alliander aims to be a diverse company, where everyone counts, feels at home and can use their talents to the full. Though energy-related jobs are regarded as typical men's work, we try to build and maintain a varied workforce. This is because we believe diversity to lead to better decision-making and cooperation. Moreover, we think that colleagues must be able to be themselves, irrespective of their gender, age, (cultural) origin, religion, nationality and sexual orientation. That is why we encourage the recruitment of women in leadership positions, members of non-western ethnic groups and people at a distance from the labour market.

In 2016, we employed 7,148 people. The majority (80%) are male. We see a proportionate representation across age groups. The percentage of women in leadership positions decreased last year from 25.6% to 24.7%. We have initiated targeted efforts to increase this percentage.

Finding work via step2work

Alliander is convinced that people in work feel more engaged with society. People at a distance from the labour market (e.g. due to physical or mental impairments) need support to find suitable employment. In 2016, we offered apprenticeship-based jobs to a total of 104 youngsters, over-50s and people with a physical impairment (2015: 103). In Amsterdam, we helped young candidates find work via I-MPower, a joint youth project with Nuon and Philips, the municipality of Amsterdam and local parties within Amsterdam.

Ingrid Thijssen: Top Female Executive 2016!

Ingrid Thijssen, member of the Management Board of Alliander, is Top Female Executive of the year 2016. Promotion of diversity was an important criterion for her election, as were span of control, seniority of her position, results achieved and her role in innovating the organisation. The jury praised Ingrid “for her courage and connective leadership style, which enable her to play an important role in a male-dominated world, and in a sector with great social relevance”.

Social Covenant

The Social Plan 2013-2016 expired in November 2016. Alliander consulted with the Works Council and trade union representatives about the situation in the period thereafter. Based on these talks, new arrangements were made about the social policy in relation to organisational changes at Alliander in the coming years. Underlying this dialogue was a shared objective: to avoid involuntary unemployment (redundancy). Good strategic staff planning and career policies can prevent compulsory dismissals. With some organisational developments, additional measures may be necessary to encourage employees to move on of their own accord. We facilitate the long-term employability of all our employees.
Despite all these efforts, redundancies cannot always be prevented. So we still cannot do without arrangements such as those contained in a social plan. For this reason, the parties have agreed on a covenant that will act as a safety net for redundant employees after the Social Plan expires. The covenant is valid from 1 November 2016 to 1 November 2019.

Internal compensation ratio

The transparency of compensation ratios within organisations is the subject of global debate. Alliander aims to report openly on this issue. The total income of our CEO, is 5.1 times the median salary of all Alliander employees in the Netherlands. This is lower than the average of the 1,000 largest companies in the Netherlands. This ratio will fall further in the coming years as a result of the voluntary basis to a salary reduction to the capped remuneration level, on the understanding that existing contracts will be respected in parallel with the staturoty transitional periods.

Impact Case: Sustainable office renovation at Duiven and Arnhem

In the past two years, two large premises – in Duiven and Arnhem – were redeveloped and underwent a complete metamorphosis. To achieve this, we opted for a different contracting method, involving integrated cooperation between all parties, including architects and builders. This resulted in two buildings that currently merit best practice status for sustainability and circularity.

Since the Duiven premises were opened in November 2015, more than 5,000 visitors interested in sustainable and circular renovation have received a tour of the building. Extensive energy-saving measures and renewable energy generation are expected to produce almost four million euros of avoided environmental impact across the building's life span compared to a standard office building in the Netherlands completed in 2016. Energy saving facilities include gas-free heating and cooling systems, recirculation, innovative insulation and solar panels. In addition, recycled materials were used and circular aspects were incorporated into the design, construction materials and business model. Examples are the 'light as a service' lighting concept and fittings from recycled condensers.

Thanks to the reassembly approach used for the conversion, the roof in Duiven contains 30% less steel than the market average. In addition, recycled materials were used. The environmental impact of the construction method and materials was significantly reduced to 5 million euros in terms of social costs, while we also achieved a high BREEAM score (standard for measuring the sustainability of buildings). The Duiven building has now been certified to the highest standard (Outstanding). Water-saving measures will also reduce Alliander's use of drinking water by an expected 7 million litres.

Shareholders and investors

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

Stakeholders in our enterprise with financial and corporate social responsibility interests have identified the following subjects as important to them: energy consumption and CO_2 emissions, transparency, supply chain responsibility, compliance with financial policy and financial performance. This section gives details of our performance in these areas.

Objectives and results relevant to shareholders and investors

Rating

2016 OBJECTIVE

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

2016 RESULT

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

Socially Responsible Procurement (SRP)

2016 OBJECTIVE

68% minimum

2016 RESULT

71%

CO_2-emissions from business operations

2016 OBJECTIVE

833kt max

2016 RESULT

797kt

FFO/Net debt

2016 OBJECTIVE

>20%

2016 RESULT

26.6%

Interest cover

2016 OBJECTIVE

>3.5

2016 RESULT

8.3

Net debt

2016 OBJECTIVE

<60%

2016 RESULT

32.6%

Solvency

2016 OBJECTIVE

>30%

2016 RESULT

58.5%

How finance and sustainability go hand in hand

Thanks to our financial position, we are able to continue to invest in our networks and grow the business. This 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 an increasingly important part of the deliberations of shareholders and other investors alongside sound financial policy. Alliander supports this and the company's sustainability targets are therefore playing an increasingly prominent role in the management of the business and external financing. This development has allowed us for the first time to issue green bonds whose proceeds will be used exclusively for sustainable investments.

Financial policy

Financial framework

Alliander's financial framework is formed by the FFO/net debt, interest cover, net debt/net debt plus equity and solvency ratios. These ratios, coupled with the norms against which they are measured, are crucial in obtaining and retaining a solid A rating profile on a stand-alone basis. In a departure from IFRS, when calculating the ratios, the subordinated perpetual bond loan issued in 2013 is treated as 50% equity and 50% debt. The classification of Endinet group as 'non-current assets held for sale' (IFRS 5) was ignored when calculating the 2015 ratios.

Ratios on the basis of Alliander's financial policy

	norm	31 December 2016	31 December 2015
FFO/net debt[1]	> 20%	26.6%	28.1%
Interest cover[2]	> 3,5	8.3	7.6
Net debt/(net debt + equity)	< 60%	32.6%	34.3%
Solvency[3]	> 30%	58.5%	55.7%

1 The funds from operations (FFO)/net debt ratio is the 12-month profit after tax adjusted for deferred tax movements and incidental items and fair value movements plus depreciation of property, plant and equipment and amortisation of intangible assets and accrued income, as a percentage of net debt.

2 The interest cover ratio concerns the 12-month profit after tax, adjusted for the movements in the deferred tax assets and liabilities, incidental items and fair value movements, plus depreciation of property, plant and equipment and amortisation of intangible assets and the net amount of finance income and expense, divided by net finance income and expense adjusted for incidental items and fair value movements.

3 The solvency ratio is obtained by dividing total equity including the profit for the period by total assets less deferred income.

As at 31 December 2016, the FFO/net debt ratio amounted to 26.6% (year-end 2015: 28.1%) compared with a required minimum of 20%. The decrease is mainly accounted for by a lower operating profit as a result of lower prices and higher sufferance tax levies.

As at 31 December 2016, the interest cover ratio worked out at 8.3 (year-end 2015: 7.6). The decrease is mainly accounted for by lower interest expense. 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 2016 amounted to 32.6% (year-end 2015: 34.3%). Alliander's financial policy stipulates that this ratio should not exceed 60%.

The solvency ratio as at 31 December 2016 amounted to 58.5% (year-end 2015: 55.7%), compared with a minimum of 30%. The rise compared with 2015 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% of the profit after tax, adjusted for non-cash incidental items, unless the investments required by regulators or financial criteria demand a higher profit retention percentage and unless the solvency ratio falls below 30% after payment of dividend.

Investment policy

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

Dialogue with our financial stakeholders

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

All of Alliander's shares are held directly or indirectly by Dutch provincial and municipal authorities. A full list of the shareholders can be found on www.alliander.com. The authorised share capital of Alliander N.V. is divided into 350 million shares with a nominal value of €5 each. All the shares are registered shares. As at 31 December 2016, there were 136,794,964 issued and paid-up shares. Contact with shareholders primarily takes place in shareholders' meetings. However, Alliander also believes that it is important to have contacts between the company and its shareholders outside of the shareholders' meetings, on a bilateral basis or in a wider forum. A summary of the various shareholder dialogue structures can be found on the Alliander website.

The investor's view

Alliander issued green bonds for the first time in April, raising €300 million to fund investments in sustainable projects. Asset manager Actiam was one of the subscribers. “Green bonds do have to have genuinely green credentials”, say portfolio manager Foppe-Jan van der Meij and ESG analyst Bas Wetzelaer (right and left in the photo).

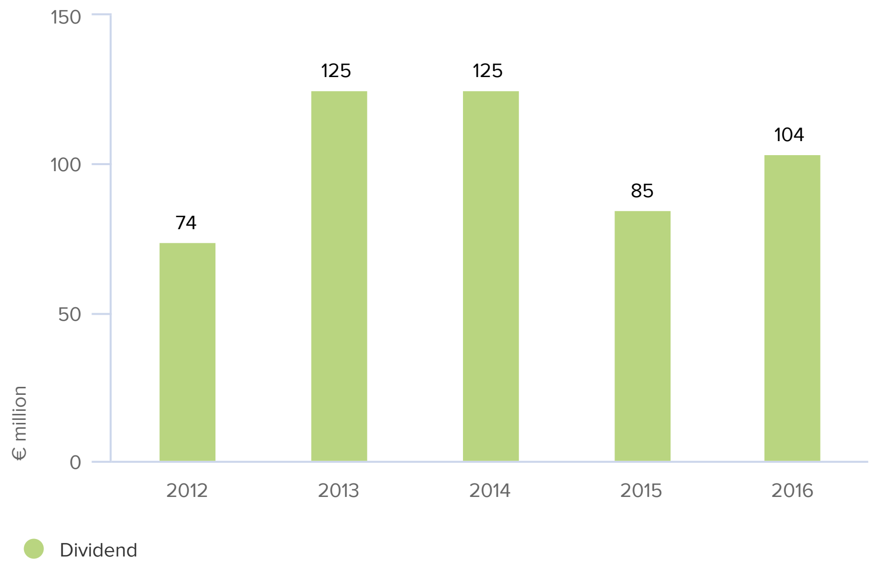
“Actiam is a responsible fund and asset manager with assets under management of over €55 billion. We have strict requirements for our investments as part of our fundamental investment policy. When selecting our investments we look first at an organisation’s financial health and expected profitability. We are also aiming to improve the sustainable nature of our investments by selecting businesses with sustainable operations, and green bonds help in this. It also shows that you are acting responsibly as an investor. Clients note and appreciate that. Even so, we don’t invest in every green bond. It has to offer a return. And green bonds do have to have genuinely green credentials. A coal mine issuing green bonds for wind turbines does not ring true. But Alliander is credible. The company has a good credit rating, is playing an active role in the energy transition and has sustainable operations. The investment in the green bond was, for example, used to fit smart meters, set up smart networks and make the new offices in Duiven sustainable. We look carefully at the social and financial impact of this kind of project and like to see it being enhanced.”

“Our organisations have a fairly close relationship. Alliander is a company we have invested in for some time., Lines of communication are short. Alliander succeeds in ‘involving’ investors. We meet regularly and make our wishes known, setting out our vision. After that, we look at the annual figures, the news and social impact reports, as it is important to us that the company can meet its commitments, for example on energy efficiency improvements and the number of smart meters offered. And we read between the lines: is the business open to things than can be done better? Alliander sets out its strategy and objectives clearly. ‘What you see is what you get’, and that’s a good way of working.”

Proposed profit appropriation for 2016

The Management Board has determined, with the approval of the Supervisory Board, to add €178.1 million of the profit to the other reserves. The remaining profit of €103.8 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 2016 financial year.
The dividend for 2016 is up by €18.8 million compared with 2015 owing to the higher net profit for 2016, which was due mainly to the book profit on the sale of Endinet on 1 January 2016.

Dividend



Institutional investors

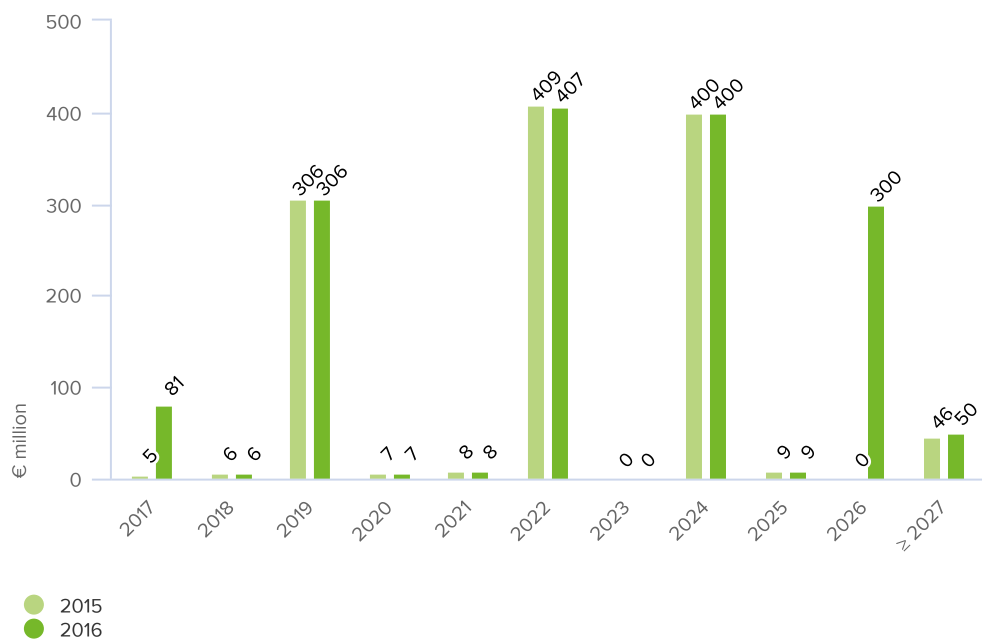
Institutional investors in our bond issues, such as asset managers, insurance companies, pension funds and banks, provide a large part of our financing in the form of debt. These are professional players on the international financial markets. We keep existing and potential bondholders informed regarding 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 held investor conference calls in March and September 2016 which addressed a range of subjects including the method decisions and regulated WACC for the new regulatory period, the impact on Alliander of the exchange of networks between Alliander and Enexis and the consequences of the Senate's rejection of the Electricity and Gas Bill (STROOM).

In addition there was a roadshow in connection with the green bond issue in April 2016 during which we visited investors in Paris, Frankfurt, Amsterdam and London to explain Alliander's sustainability policy and the projects to be financed.

Interest-bearing debt

The repayment schedule for the interest-bearing debt as at year-end 2016 was as follows:

Repayment schedule interest-bearing debt



The amounts scheduled for repayment in 2019, 2022, 2024 and 2026 mainly relate to the bond loans. The other amounts relate to the repayment of shareholder loans and other loans. Alliander has a €3 billion EMTN programme. In April, Alliander issued €300 million of new 10-year bonds at a coupon interest rate of 0.875%. This was the first time Alliander has issued green bonds. These are bonds whose proceeds have to be used exclusively for sustainable investments. The proceeds from these green bonds were used mainly to refinance investments in smart meters and the sustainable redevelopment of the office in Duiven.

As at 31 December 2016, the carrying amount of the outstanding bonds was €1,394 million (nominal value €1,400 million). Alliander has available an ECP programme totalling €1,500 million which can be used to issue short-term debt instruments. The euro equivalent of this amount has been fully hedged. As at year-end 2016, ECP loans with a face value of €75 million were outstanding.

Banks

In July 2016, Alliander renewed its existing committed €600 million back-up credit facility on favourable terms. The facility was contracted with a group of six banks including two new banks. The new facility runs until 29 July 2021 with one-year renewal options up to July 2023 exercisable in 2017 and 2018. As in previous years, this facility was not drawn on during the year.

Rating agencies

In order to retain ready access to the capital and money markets, it is important for existing and potential financiers to have an accurate picture of Alliander's creditworthiness. Alliander uses credit ratings for this. Having a credit rating is also an obligation under the terms of the cross-border lease contracts entered into at the end of the 1990s by Alliander's legal predecessors. Alliander has credit ratings from S&P and Moody's. These ratings comprise a long-term rating with an outlook, and a short-term rating. The outlook is an indication of the expected change in the long-term rating over the next few years. S&P and Moody’s have kept both ratings and outlook unchanged. The credit ratings as at year-end 2016 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 and the exchange of networks with Enexis.

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. Moody's has reaffirmed the ratings the end of July following the published draft method decisions.

Alliander's tax matters

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

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

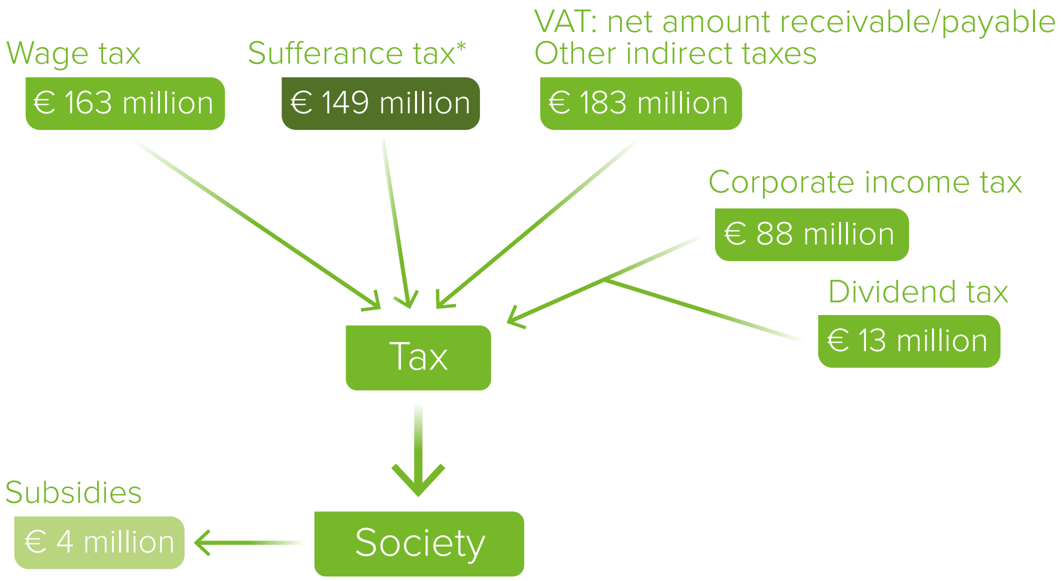
In view of this, we have set ourselves a number of goals that we strive to achieve each and every day:

- We comply with all primary and secondary legislation relating to tax and subsidies both at home and abroad.
- 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, the Netherlands Enterprise Agency, the Supervisory Board, the Management Board, internal

departments such as Human Resources, Regulation, Governance, Risk and Compliance, Legal Affairs and Internal Audit, as well as other internal bodies.

- We make an active contribution to awareness and culture within Alliander regarding tax and hold each other accountable for our attitude and conduct as regards the implementation of our tax mission.

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



*Sufferance tax refers to a local authority levy

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. Against this background, Alliander strives to reach an advance ruling on potential tax risks by pursuing a constructive and transparent dialogue with the tax authorities. The implementation of our tax strategy also adheres to Alliander's risk management model. In this context, the Tax Control Framework is also used as a risk mitigating measure.

Current tax-related developments

The effective tax burden in 2016[1] was 27.5% (2015: 25.1%). This percentage is in excess of the standard rate by a greater margin than in 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 2016 reporting period, this was an amount of €264 million in direct taxation.

In November 2010, Alliander issued a subordinated perpetual bond loan with a nominal value of €500 million. In the closing two months of 2013, this subordinated perpetual bond loan was redeemed. Under IFRS, an instrument of this kind qualifies as equity. It was assumed that the periodical payments made to the holders of the bonds issued in 2010 would count as deductible interest expense for the purposes of corporate income tax. To date no agreement has been reached with the Dutch Tax & Customs Administration concerning the tax treatment of these loans. On 20 December 2016, the Court in Arnhem granted Alliander’s appeal in the ongoing proceedings. The Tax & Customs Administration has announced its intention to take the matter to the Court of Appeal.

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

Considered approach to grant applications

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

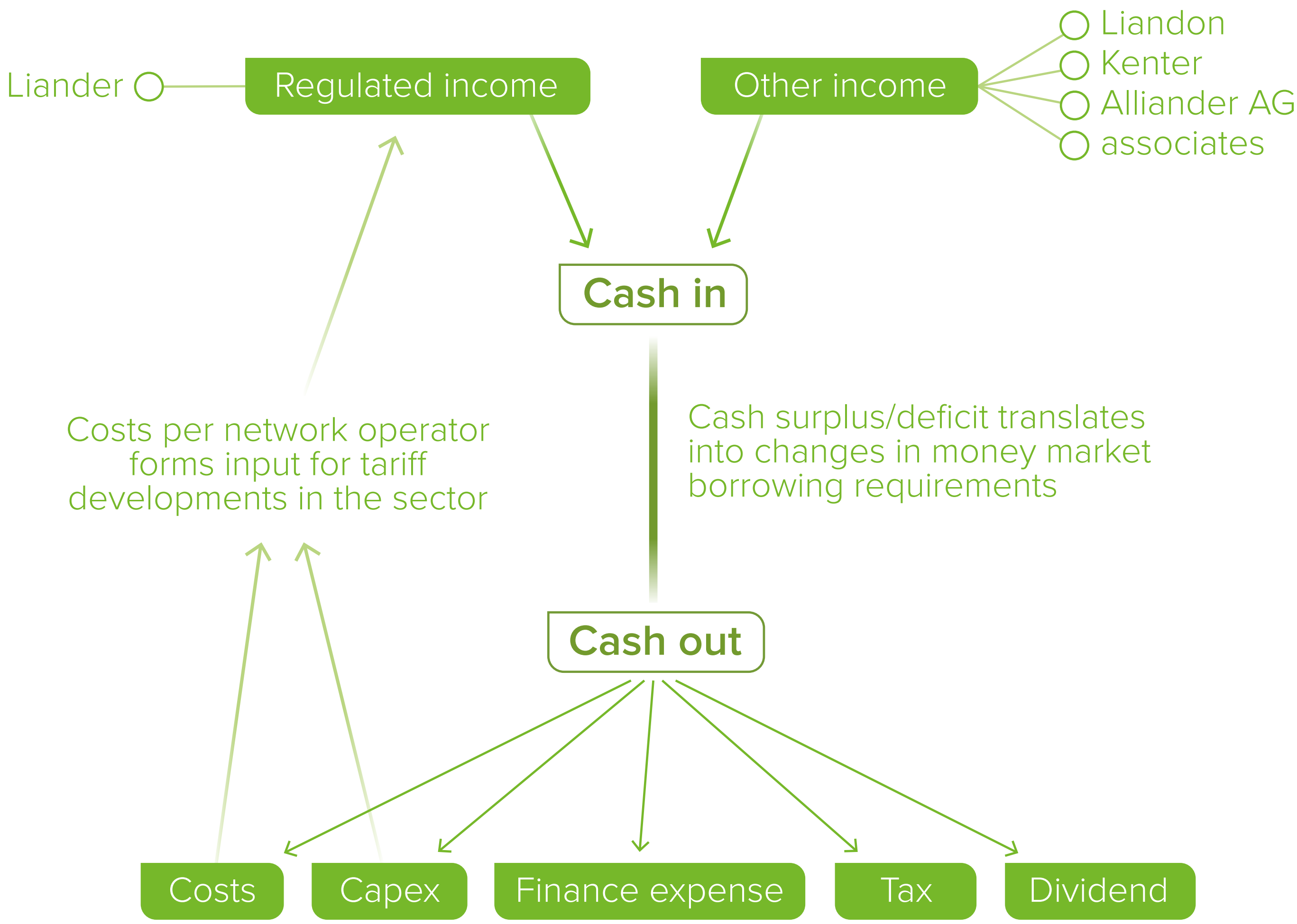
Outlook

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

Financial results in 2016

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

Financial model



Notes on the main cash flows within Alliander

Alliander's income is made up of approximately 85% income from the regulated activities of Liander and 15% other income, the latter being income from 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 operator Liander will be publishing its own annual report on its performance in 2016 during the second quarter of 2017.

The main expenditure relates 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 50% of our overall expenditure. On top of that, we invest in excess of half a billion euros a year in capital projects, mainly concerned with replacing existing assets and expanding the networks, as well as the installation of smart meters. This investment equates to roughly 30% of our total expenditure. Additionally, there is the dividend payable to our shareholders and the interest payments to the holders of the subordinated perpetual bond loan and the providers of borrowed capital. The dividend and interest payments for 2016 together amounted to approximately 10% of our overall expenditure. Finally, we pay sufferance tax charges to municipal authorities and corporate income tax to the Dutch Tax & Customs Administration. This accounts for another 10% of our outgoings approximately.

Sale of Endinet and purchase of the networks in Friesland and the Noordoostpolder

The transaction under which the Enexis networks in Friesland and the Noordoostpolder were purchased from Enexis and at the same time the networks in the Eindhoven and Zuidoost-Brabant region (Endinet Groep B.V) were sold to Enexis took effect on 1 January 2016. This transaction involved 51,000 electricity and 196,000 gas connections in Friesland and 28,000 electricity and 27,000 gas connections in the Noordoostpolder. The sale of Endinet involved 108,000 electricity and 398,000 gas connections.

The networks in Friesland and the Noordoostpolder are in the middle of Liander's service area and this makes more efficient operations possible. 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.

Sale of Endinet

The book profit on the sale of Endinet on 1 January 2016 was €176 million and this sum has been recognised in the 2016 income statement as profit after tax from discontinued operations.

With respect to the 2015 financial year, 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 'assets held for sale' and 'liabilities connected with the assets held for sale' balance sheet items. 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'.

Classification as discontinued operations means that the Endinet group's net result is shown as a separate item in Alliander's income statement. It also means that Endinet is no longer included in the individual items of Alliander's 2015 income statement.

Purchase of shares in AEF B.V.

The definitive acquisition price of the networks in Friesland and the Noordoostpolder (AEF B.V.) was based on the 2015 figures of AEF B.V. and included settlement based on a fair value of €335 million. The fair value was established using medium and long-term cash flows, regulatory developments and any outperformance effects and synergy benefits. A number of small adjustments have been made to the fair value compared with the 2016 half-year report. Allocation of the purchase price resulted in a net asset value of €326 million, with goodwill of €9 million. See note [1] to the financial statements for further disclosures.

Purchase of shares of 450connect GmbH

On 31 May 2016, Alliander AG purchased the entire share capital of Inquam Deutschland GmbH (name changed to 450connect GmbH). 450connect GmbH is active in leasing bandwidth to third parties, including provision of related services. The purchase of 450connect GmbH will enable Alliander AG to establish a private mobile communication network for smart meter and smart grid applications etc. Alliander N.V. has been developing a similar communication network in the Netherlands in partnership with Stedin since 2014, owned by the joint operation Utility Connect. For more detailed disclosures see also note [1] to the financial statements.

Income statement for 2016

The profit after tax for 2016 was €282 million (2015: €235 million). The increase is mainly a result of the book profit of €176 million on the sale of the network company Endinet to Enexis. Adding the newly acquired areas in Friesland and the Noordoostpolder to the figures led to an increase in both revenue and expenses. For comparison purposes it is noted that the 2015 result includes an incidental gain of €66 million relating to the termination as per contract of the CDS, a financial instrument relating to two cross-border lease contracts. The instrument has now been settled in full.

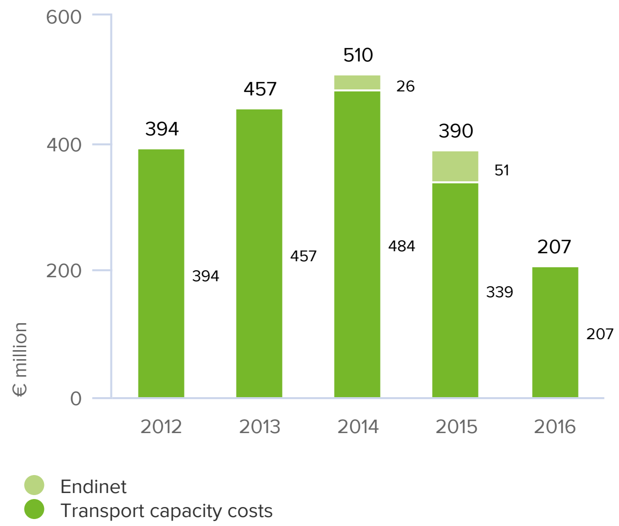
Profit after tax from continuing operations excluding incidental items was €132 million, which is €41 million lower compared with 2015. This was mainly as a result of higher purchase costs, costs of subcontracted work and operating expenses and higher depreciation, partly offset by higher contributions to operations from customers.

Total income in 2016 rose €43 million compared with 2015, to €1,723 million, partly as a result of a rise in contributions to operations received from customers and a rise in regulated revenue despite the fall in regulated tariffs. The rise in regulated revenue followed the purchase of the networks in Friesland and the Noordoostpolder on 1 January 2016. Endinet's networks were sold to Enexis on 1 January 2016.

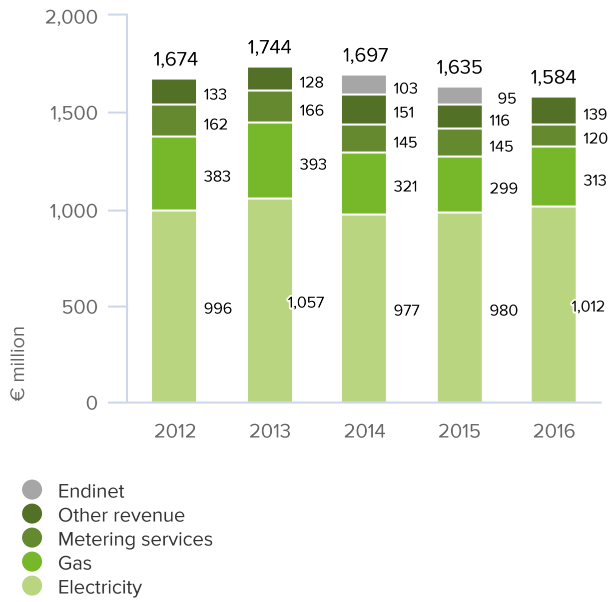
Total operating expenses for 2016 were €1,516 million, which is €175 million higher than in 2015. Total operating expenses in 2015 included a large gain relating to the termination as per contract of the CDS, a financial instrument relating to two cross-border lease contracts. The instrument has now been settled in full. Adjusted for this and other incidental items, there was an increase of €104 million compared with 2015. This increase was chiefly a consequence of higher sufferance tax charges, higher costs passed on from the transmission network operator TenneT and higher depreciation. Alliander continues to work towards increased effectiveness and efficiency.

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

Operating profit



Revenue[1]



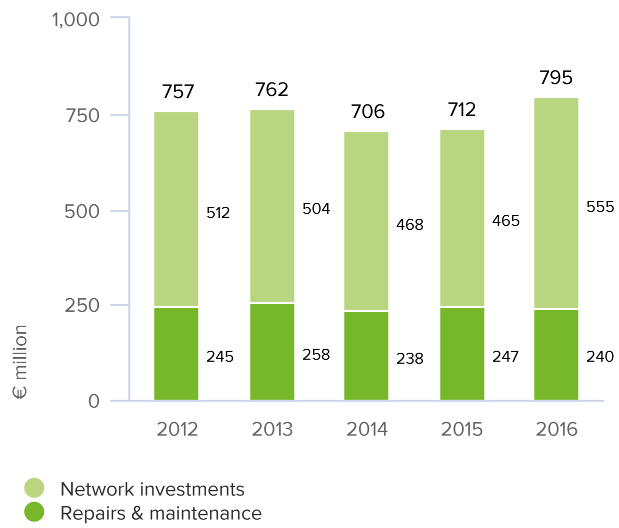
1 There has been a change of view which, in the comparative figures for 2015, results in the transfer of an amount of € 46 million from other revenue (under 'Revenue') to operating contributions and other operating income here.

Revenue

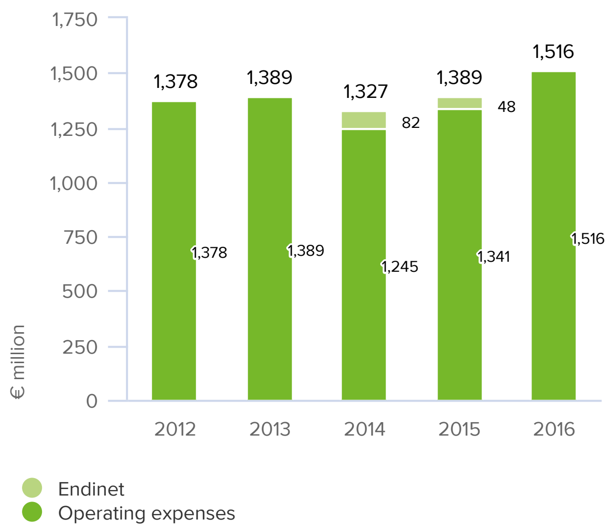
Revenue in 2016 rose by €44 million compared with the previous year, from €1,540 million to €1,584 million. This increase was chiefly a consequence of the newly acquired areas in Friesland and the Noordoostpolder and growth in the number of gas and electricity connections and the metering service. The lower regulated gas and electricity distribution and connection tariffs and lower regulated tariffs for the metering service had an adverse effect on revenue.

Most of our revenue is generated by regulated activities. Alliander also has non-regulated activities, such as those of Liandon, and various new activities. Growth in these non-regulated activities created an increase in other revenue.

Maintenance costs and network investments



Operating expenses



Network investments and maintenance costs

The above graph shows the expenditure on maintenance costs and network investments, including meters, over the past five years. Total expenditure on maintenance costs and network investments, at €795 million, was an increase of €83 million compared with 2015 (€712 million). The increase came mainly from higher investment in meters (by €51 million) as a result of the large-scale offering of smart meters and increased investment in electricity networks (by €50 million) following an increase in the working package. Expenditure on maintenance of the network (down €7 million) and investment in the gas networks (down €11 million) was lower than in 2015.

Operating expenses

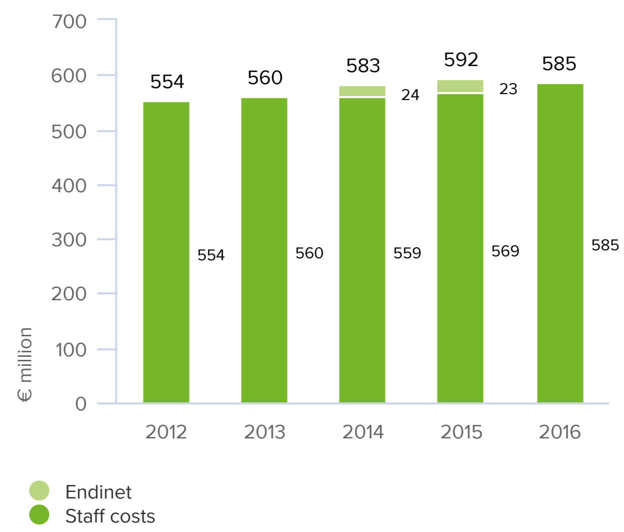
Total operating expenses rose from €1,341 million in 2015 to €1,516 million in 2016. Total operating expenses in 2015 included a large gain relating to the termination as per contract of a financial instrument relating to two cross-border lease contracts. Adjusted for this and other incidental items, there was an increase of €104 million compared with 2015. This increase was chiefly a consequence of higher sufferance tax charges, higher costs passed on from the transmission network operator TenneT, higher depreciation and higher network maintenance costs. Alliander continues to work towards increased effectiveness and efficiency.

The increase was mainly due to:

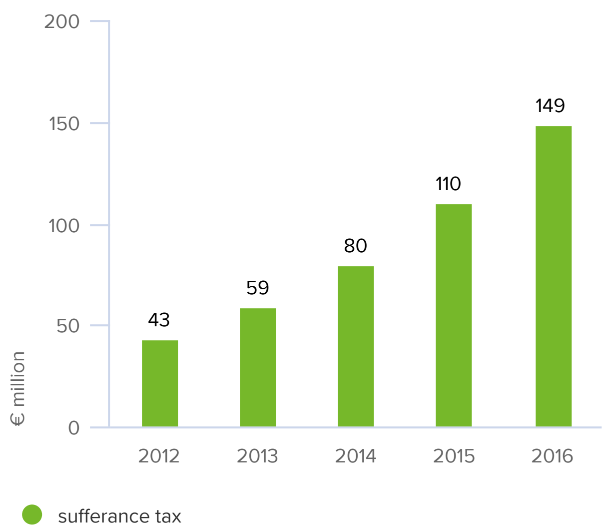
- an increase of €39 million in sufferance tax charges owing to more municipalities levying the tax in 2016 and a rise in rates;
- an increase of €15 million in transmission capacity costs and restrictions resulting from higher tariffs being charged and volume increases, in addition to the fact that costs were reduced in 2015 by a settlement with TenneT for prior years;
- increased other operating expenses of €20 million, due in part to higher professional fees as a result of the network swap operation with Enexis B.V. and higher ICT costs;
- an increase in depreciation of €57 million, partly due to the networks taken over from Enexis, the higher level of capital expenditure in 2016 and accelerated depreciation on metering devices as a result of the faster large-scale offering of smart meters. The impairment of certain assets led to an increase in depreciation;
- the increase was partly offset by lower costs for grid losses, down by €10 million (mainly as a result of lower tariffs and positive effects of the expiry of positions and settlements relating to prior years) and an increase in own work capitalised of €25 million (as a result of an improvement in productivity and increase in the working package).

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

Employee benefit expense (own and contract staff)



Sufferance tax



Employee benefit expense

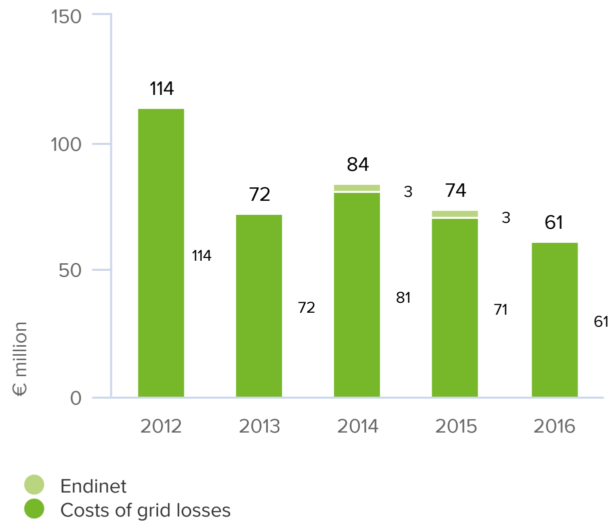
The increase (€16 million) in employee benefit expense for permanent staff and external personnel compared with the preceding year was due mainly to general pay increases and additions to staff-related provisions as a result of a lower discount rate. The increase in the number of employees coming from Enexis, as a result of the acquisition of AEF B.V., was more or less offset by fewer FTEs in the other business units.

Sufferance tax charges

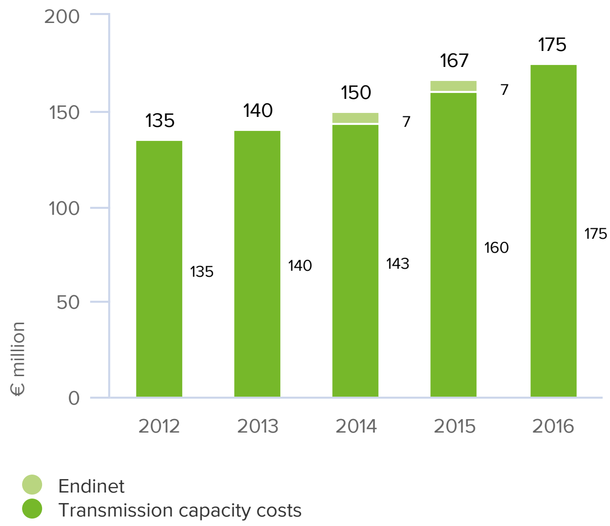
The amount of sufferance tax charges increased by €39 million compared with 2015, to €149 million. The trend in the amount of sufferance tax payable over the past five years is illustrated in the graph above. The increase is largely due to the fact that more and more municipal authorities are levying sufferance tax charges on Liander and also that sufferance tax rates have risen.

The sufferance tax is not included in the calculation of tariffs in the regulated domain and is treated as an objectively observable regional difference. This means that part of the sufferance tax levies for Liander are reflected, with a time lag in some cases, in the tariffs applicable to all customers in the area served by Liander. The local levies therefore lead to increased tariffs for all customers (about €51 per customer per year) even though the tax is only levied by a limited number of municipalities. Liander is therefore in favour of the abandonment of sufferance tax for utilities which has now been announced by the Minister of the Interior and Kingdom Relations.

Costs of grid losses - electricity



Transmission capacity costs

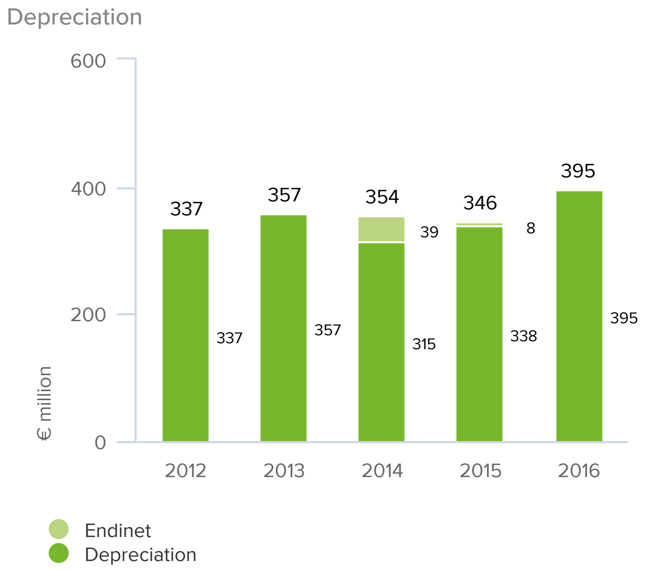


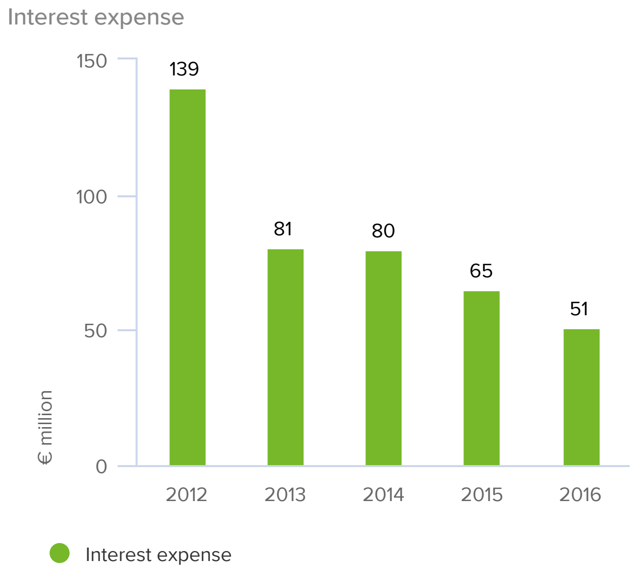
Grid losses

The costs of grid losses (excluding costs attributable to discontinued operations – Endinet) amounted to €61 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 grid 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 showed a further increase of €15 million in 2016, to €175 million (2015: €160 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 TenneT's tariffs.





Depreciation

The depreciation charges and impairment losses on non-current assets amounted to €395 million, which is an increase of €57 million compared with the preceding year (2015: €338 million). The increase is mainly a consequence of depreciation of the networks acquired from Enexis, the higher level of investment in 2016 and accelerated depreciation of metering equipment as a result of the faster large-scale offering of smart meters. The impairment of certain assets also led to an increase in depreciation.

Interest expense

A drop in interest-bearing debt coupled with lower interest rates meant that the interest expense on loans from third parties was down by €14 million in 2016, at €51 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 2016 combined to give a gain of €150 million after tax (2015: gain of €24 million). The following table contains an overview of the reported figures and the figures excluding incidental items and fair value movements.

Reported figures and figures excluding incidental items and fair value movements

€ million	Reported		Incidental items and fair value movements		Excluding incidental items and fair value movements	
	2016	2015	2016	2015	2016	2015
Revenue	1,584	1,540	-	-	1,584	1,540
Other income	139	140	-	-	139	140
Total purchase costs, costs of subcontracted work and operating expenses	-1,320	-1,177	-21	37	-1,299	-1,214
Depreciation and impairments	-395	-338	-13	-	-382	-338
Own work capitalised	199	174	-	-	199	174
Operating profit (EBIT)	207	339	-34	37	241	302
Finance income/(expense)	-54	-71	-1	-6	-53	-65
Result from associates and joint ventures	-5	-4	-	-	-5	-4
Profit before tax	148	264	-35	31	183	233
Tax	-42	-67	9	-7	-51	-60
Profit after tax from continuing operations	106	197	-26	24	132	173
Profit after tax from discontinued operations	176	38	176	-	-	38
Profit after tax	282	235	150	24	132	211

Total purchase costs, costs of subcontracted work and operating expenses

(2016: €21 million charge, 2015: €37 million gain)

The incidental charge recognised as purchase costs, costs of subcontracted work and operating expenses includes €10 million (2015: €17 million) in respect of project costs and integration costs concerned with the exchange of the energy networks of Enexis in Friesland and the Noordoostpolder with those of Liander in the Eindhoven region and Zuidoost-Brabant (Endinet) on 1 January 2016. Of the remainder of the incidental items included in purchase costs, costs of subcontracted work and operating expenses, €11 million (2015: €12 million) represents the cost of organisational changes.

In 2015 there was also an incidental gain of €66 million recognised in purchase costs, costs of subcontracted work and operating expenses relating to the termination as per contract of the CDS, a financial instrument relating to two cross-border lease contracts. The instrument has now been settled in full.

Depreciation and impairment

(2016: €13 million charge, 2015: nil)

The incidental charge of €13 million (2015: nil) in depreciation and impairment is a consequence of the annual triggering event analysis and impairment calculation process and concerns additional depreciation of transformers, part of the network in Germany, vacant premises and part of the CDMA network.

Financial income and expense

(2016: €1 million charge, 2015: €6 million charge)

The incidental financing charge of €6 million in 2015 included a loss of €4 million on currency translation differences relating to the now settled CDS (an instrument denominated in US dollars). The remaining loss in 2015 related 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 of the incidental items and movements in fair value is recognised in tax.

Tax

(2016: €9 million gain, 2015: €7 million charge)

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

Profit after tax from discontinued operations

(2016: €176 million gain, 2015: nil)

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

Segment reporting

General

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

- Network operator Liander
- Other

Until 2015, Endinet was reported as a separate segment and the segmentation was as follows:

- Network operator Liander
- Network company Endinet
- Other

The figures for each reporting segment, excluding incidental items and fair value movements, are shown in the following table. These figures are a direct reflection of the regular internal reporting. This internal reporting structure does not reflect the classification of Endinet as held for sale in 2015. 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 for 2015. Detailed information on segment reporting can be found in note [2] of the financial statements.

Primary Segmentation

	Network operator Liander		Network company Endinet		Other		Eliminations		Total	
€ million	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Operating income										
External income	1,582	1,567	-	101	141	112	-	-	1,723	1,780
Internal income	3	6	-	-	331	329	-334	-337	-	-
Operating income	1,585	1,573	-	101	472	441	-334	-337	1,723	1,780
Operating expenses										
Operating expenses	1,277	1,218	-	83	539	491	-334	-336	1,482	1,456
Operating profit	308	355	-	18	-67	-50	-	1	241	324

Network operator Liander

The network operator Liander segment consists of the legal entity Liander N.V. which, as designated network operator within network company Alliander, has a statutory duty to manage the electricity and gas networks and related assets in the provinces of Gelderland, Flevoland and parts of Friesland, Noord-Holland and Zuid-Holland. Liander connects customers to the electricity and gas networks through which it distributes electricity and gas. External income in 2016 was up by €15 million compared with 2015, at €1,582 million. This increase is mainly accounted for by the effects of lower regulated tariffs in 2016 offset by the acquisition of AEF B.V. There is further information on the acquisition of AEF B.V in note [1]. Operating expenses were up by €59 million, chiefly owing to an increase in sufferance tax charges and the acquisition of AEF B.V. Operating profit at €308 million was €47 million lower than in 2015.

Other

The Other segment covers the entirety of the other operating segments within the Alliander group, such as the activities of Liandon, Stam, Alliander AG, Allego, Duurzame Gebiedsontwikkeling, new activities, the corporate staff departments and the service units. External operating income in 2016 was up by €29 million compared with 2015, at €141 million. Operating profit for 2016 amounted to €67 million negative (2015: €50 million negative). The increased losses are mainly attributable to acquisition costs and new activities.

Balance sheet

The abridged balance sheet as at 31 December 2016 is shown below.

	Alliander N.V.	
€ million	31 December 2016	31 December 2015
Assets		
Non-current assets	7,335	6,707
Current assets	400	406
Assets held for sale	-	613
Total assets	7,735	7,726
Equity and liabilities		
Total equity	3,864	3,687
Non-current liabilities	3,308	2,970
Short-term liabilities	563	974
Liabilities held for sale	-	95
Total equity and liabilities	7,735	7,726

The following notes explain the significant changes in the balance sheet as at 31 December 2016 relative to the situation as at 31 December 2015. Detailed information on balance sheet items is given in the financial statements.

Non-current assets

Non-current assets as at 31 December 2016 increased by over €600 million compared with 31 December 2015. This increase is mainly a consequence of the purchase of networks in Friesland and the Noordoostpolder on 1 January 2016. In addition there was higher capital expenditure on the networks and meters in 2016 in relation to the associated depreciation charges.

Current assets

Current assets were down, at €400 million, representing a slight fall of €6 million compared with 2015 which is mainly accounted for by the reduction in net cash and cash equivalents and current deposits.

Non-current assets held for sale

As noted above, since 24 March 2015 Endinet has been classified as 'held for sale', meaning that all its assets and liabilities have been reclassified since that date to non-current assets and liabilities held for sale on the balance sheet. This also applies to goodwill of €36 million relating to Endinet on Alliander's balance sheet. These balance sheet items at year-end 2015 were as follows:

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	17
Total assets	613
Liabilities	
Non-current liabilities	88
Short-term liabilities	7
Total liabilities	95
Net assets	518

Equity

Shareholders' equity as at 31 December 2016 increased by €177 million compared with the level as at 31 December 2015, to €3,864 million. This increase is mainly accounted for by the net profit for 2016, amounting to €282 million, less the dividend distribution in 2016 relating to 2015 (€85 million). A summary of the movements can be found in note [12] of the financial statements.

Current and non-current liabilities

The amount of non-current liabilities was up by more than €300 million compared with 31 December 2015. The increase is due mainly to the issue of €300 million of green bonds in April 2016.

The short-term liabilities as at 31 December 2016 were down by over €400 million compared with the position as at year-end 2015, at €563 million, as a result of the contractual redemption of part of EMTN portfolio (€400 million nominal) in 2016.

Liabilities held for sale

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

Shown below is a summary of the cash flow statement for 2016.

Cash flows

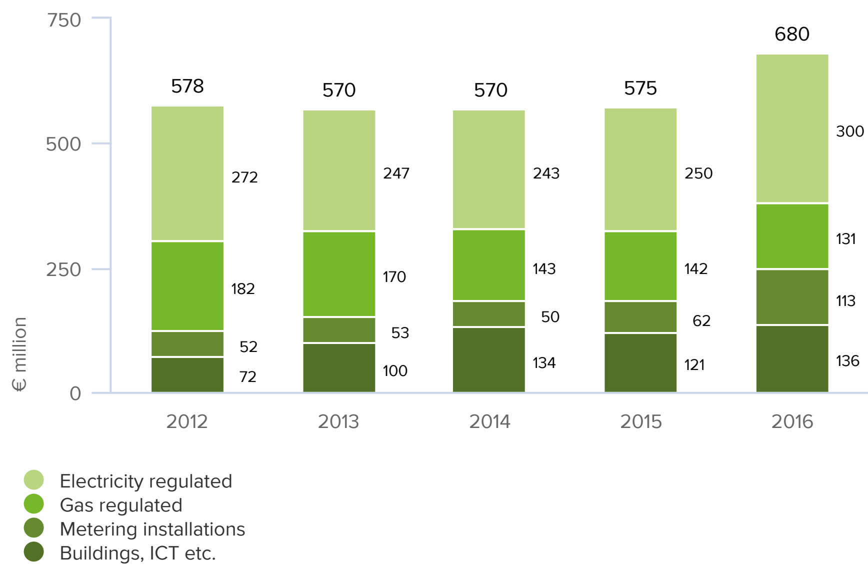
Consolidated cash flow statement

€ million	2016	2015
Cash flow from operating activities	376	513
Cash flow from investing activities	-232	-492
Cash flow from financing activities	-185	-99
Net cash flow	-41	-78

The cash flow from operating activities in 2016 amounted to €376 million, compared with €513 million in 2015. The decrease of €137 million compared with 2015 is largely accounted for by a fall in the operating profit, partly because of the reduction in the regulated tariffs (€55 million) and the increase in sufferance tax charges (€39 million). In addition, the amount of corporate income tax paid in 2016 was €27 million higher as a result of prior-year assessments received and paid.

The cash outflow from investing activities in 2016 amounted to €232 million, which is €260 million lower than in 2015. The reduced cash outflow overall in 2016 is explained by the cash inflow as a result of the exchange of service areas (€359 million). This was partly offset by higher capital expenditure (€680 million in 2016 compared with €575 in 2015). The increase of €105 million relates chiefly to the electricity networks and meters as a result of the large-scale roll-out of smart meters. Third-party contributions to investments in 2016 amounted to €99 million, which is slightly higher than in the previous year (€85 million).

Investments



Despite a decrease in capital expenditure in gas networks, the level of capital expenditure has risen by €102 million relative to 2012, an increase of 18%. Apart from the increased investments in the electricity networks and smart meters, there has been an increase in other investments as well, including higher levels of investment in telecommunication networks (both optical fibre networks and mobile data networks). In 2015 and 2016, there was also investment in buildings connected with the renovation of the offices in Duiven and Arnhem, with their sustainable and energy-saving credentials.

The cash flow from financing activities in 2016 amounted to €185 million negative (2015: €99 million negative). The net negative cash flow in 2016 is a consequence of the redemption of €100 million of EMTN loans plus dividend payments of €85 million. The negative cash flow in 2015 was mainly accounted for by the repayment of Euro Commercial Paper (ECP loans) of €112 million set against which were the proceeds from the repayment on maturity of a bond (€141 million).

Free cash flow

The free cash flow in 2016 totalled €144 million, compared with an inward free cash flow in 2015 of €21 million. The increase of €123 million compared with 2015 was due entirely to the cash flow from the exchange of service areas less the higher capital expenditure in 2016 as a result of the large-scale roll-out of smart meters in particular.

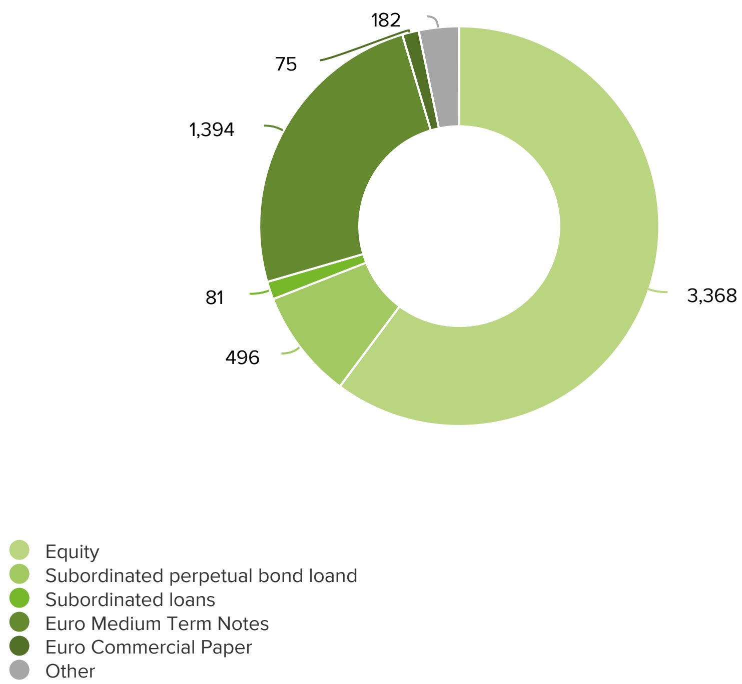
€ million	2016	2015
Cash flow from operating activities	376	513
Cash flow from the reparcelling operation	359	-
Investments and divestments in non-current assets	-690	-577
Construction contributions received	99	85
Free cash flow	144	21

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 2016 was made up as follows:

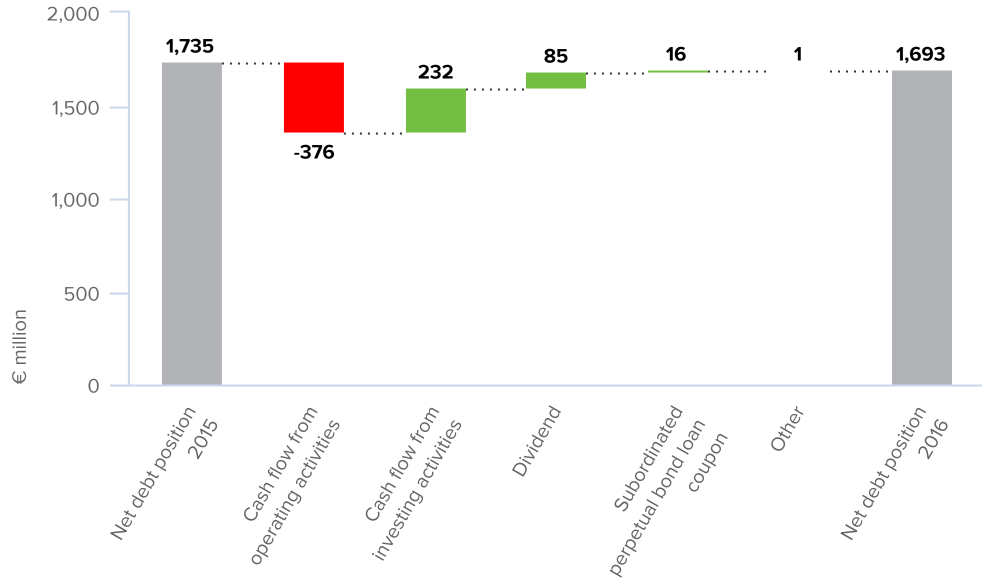
Capital structure



As the capital structure reveals, Alliander is 60% 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 during the year 2016 is shown below.

Development of net debt position



Net debt position

€ million	31 December 2016		31 December 2015	
Long-term interest-bearing debt	1,483		1,197	
Short-term interest-bearing debt	81		471	
Finance lease liabilities	168		162	
Gross debt		1,732		1,830
Cash and cash equivalents	48		89	
Current financial assets	15		25	
Investments held for lease obligations related to cross-border leases	224		229	
Total cash and cash equivalents and investments		287		343
Net debt in accordance with the annual financial statements (IFRS)		1,445		1,487
50% of the subordinated perpetual bond loan		248		248
Net debt on the basis of Alliander's financial policy		1,693		1,735

The net debt position fell by €88 million to €1,693 million as a result of the redemption of long-term EMTN loans and current ECP loans, offset to some extent by the issue of green bonds of €300 million in April.

Events after balance sheet date

There have been no events since the balance sheet date.

Our sustainability performance

2016 can be described as a year in which our CSR position became more visible. Our CO_2 footprint improved sharply in 2016 and we celebrated the tenth anniversary of two of our CRS programmes: Step2work and the Alliander Foundation.

Areas of attention

Our CSR efforts are aimed at three areas of attention. First of all, Alliander wants to contribute towards the energy transition by giving all customers equal access to renewable energy. You can read more about this in the About Alliander and Customers chapters. In addition, as a large employer we can offer more than just work. A socially responsible company is an inclusive company where everyone gets a fair chance to reach their full potential. We actively manage diversity and inclusiveness in our HR policy, for example, in recruitment and selection, training and development. You can read more about this in the Employees chapter. Finally, Alliander has ambitious targets for climate-neutral and circular operations including working with partners in our supply chains. In 2016, no explicit changes have occured in the CSR policy of Alliander.

Climate-neutral operations in 2023

Alliander had a substantial CO_2 footprint totalling 797 kilotonnes in 2016, although CO_2 emissions fell by 110 kilotonnes during the year compared with the year before, representing a reduction of some 12%. The effect of our greening policy became clear for the first time, but it was less clear as a result of changes in our service area and renovations and relocations. Our ambition is to be fully climate-neutral by 2023; in other words Alliander will have zero CO_2 emissions on balance in 2023 as a result of our network activities, offices and vehicles. Our programme on reducing and greening our CO_2 emissions is moving us step by step toward more sustainable operations.

Emissions from network and leakage losses

95% of our emissions are caused by network and leakage losses that arise mainly from the distribution of electricity and gas. Network losses cost us some €60 million in 2016 and can only be mitigated to a limited extent. Nevertheless, we are working to reduce our technical and administrative network losses each year.

Technical losses

In 2016, the volume of technical network losses grew by some 4% in absolute terms. The main reason for this was that, with a growing economy, more energy is being distributed. We are also reporting on a larger distribution area (now including Friesland and the Noordoostpolder). The reduction programme for technical network losses is being pursued as diligently as ever and focuses on measures for savings at our stations and better day-to-day management of the network. In addition, each year we are replacing grey cast-iron gas pipes at various locations for safety reasons and to reduce gas leakages. The effect of this programme is a reduction of some 3% by 2020.

Administrative losses

Our administrative network losses grew by 6%. Administrative network losses arise in part from fraud (e.g. illegal cannabis growing). We rely partly on the police and judiciary, with whom we work closely, to give us active and focused assistance in our efforts to fight fraud. The digitisation of our networks is supporting the fight against energy fraud.

Greening network losses with renewable energy

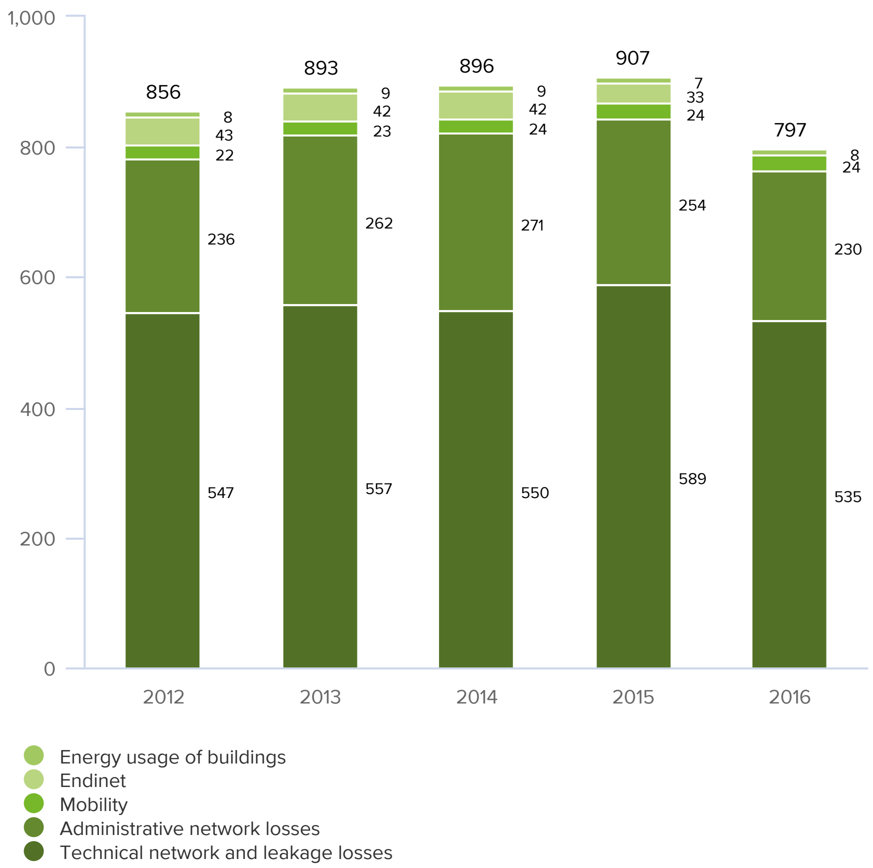
Alliander is greening its network losses by generating additional renewable energy in the Netherlands. We have made a deliberate decision to shift the purchase of energy to meet our network losses to energy from new investments in renewable sources in the Netherlands. This will allow us to ensure that our network losses are low-carbon and we will be supporting the objective of renewable energy generation. In 2016 we greened some 13% of our total network losses, representing a reduction of about 80 kilotonnes .

Vehicle and buildings emissions

We have made the energy usage at a number of offices significantly more sustainable. By redeveloping and concentrating activities at the sustainable office building in Duiven in 2015 and the now energy-neutral head office in Bellevue in Arnhem, our energy consumption has fallen. The concentration of activities and reduction in the number of offices in our distribution area combined with the new way of working will also lead to lower energy consumption. 2016 was a year of transition with much relocation and renovation activity. We expect to see the effect of our changes in location in 2017. Our CO_2 emissions rose by 2% compared with 2015.

We were able to reduce vehicle emissions by 2% in 2016. During the year we invested mainly in a more efficient vehicle fleet: most of our vans have been fitted with speed limiters (Ecodrive) and the initial results are positive. The stricter CO_2 criterion for our lease cars (maximum of 110 g/km) is producing the first visible effects.

CO_2 emissions of Alliander



Some of the energy-saving installations in the building will take a couple of years to settle down. In the second year we managed to meet 80% of the energy needs in Duiven with 1.1 million kWh of sustainable energy. We are aiming for a positive energy balance in 2017.

Supply chain emissions

Alliander's activities indirectly create carbon emissions in the energy chain and when obtaining goods and services we purchase. 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 111 tonnes.

The highest step on the CO_2 performance ladder

Our CO_2 approach and methodology were externally assessed on the basis of the CO_2 performance ladder. Certification on the CO_2 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 CO_2 performance ladder is often used as a tender award criterion.

A renewed assessment in 2016 saw Alliander maintain level 5 on the ladder. This means that we know the CO_2 emissions of our A-suppliers, have achieved the level 3 and 4 objectives, and are publicly committed to the government's CO_2 reduction programme. We are proud of this step but to retain our excellent position on the CO_2 performance ladder we must continue mobilising and challenging our suppliers to reduce emissions throughout the supply chain.

Supply chain responsibility with partners

We achieve a considerable part of our CSR performance by the way we do business. Our Socially Responsible Procurement policy addresses the three sustainability pillars: circularity, CO_2 and labour participation and by fostering corporate social responsibility in the chains in which we are primarily involved by virtue of the money we spend.

A sustainable relationship with our suppliers

With an annual procurement volume of about €902 million, we are a major purchaser of products and services in the Netherlands. Together with our suppliers, we can make a major contribution to sustainability. Sustainable procurement is an integral part of our tender invitation/evaluation criteria. Our outsourcing policy incorporates provisions relating to working conditions, use of raw materials, recycling and/or CO_2 emissions. All suppliers contracted by Alliander are required to commit to the 'Alliander Suppliers Code of Conduct.' Under this code, which is based on OECD guidelines, our suppliers (and their suppliers and manufacturers) must adhere to ethical and fair business practices. Infringements of the code can lead to sanctions, such as termination of the contract or temporary suspension of work with or without notice of default. Regular audits are conducted in which compliance with the Code is discussed. Compliance chain aspects and monitoring of possible discussion points are part of the audit reports. If we work with companies in low-wage countries, we conduct risk-based audits of these suppliers. In 2016, no audits have been carried out.

In addition to the Code of Conduct, 71% of our goods and services were purchased on the basis of Socially Responsible Procurement (SRP) statements in 2016 (2015: 66%). This supports our circular procurement objective in the Netherlands and enables us to further streamline sustainability at our suppliers. With the SRP statements we encourage suppliers to employ people at a distance from the labour market to work on our products and services. We ask suppliers with whom we do not have a SRP statement to register on the FIRA Platform (www.fira.nl). These suppliers are requested to share their own sustainability results on the FIRA platform. FIRA assures the quality of the information supplied. The platform brings parties together and gives us more insight into the sustainability performance of suppliers. FIRA prepares its reports in conformity with the international CSR standard: ISO 26000. Registration gives the supplier insight into sustainability performance and ambitions. We ask that our suppliers are at least at BRONZE level.

Circular operations

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

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

Circular procurement demands intensive co-operation with our suppliers. Underlining our commitment to this policy, we became one of the first 20 signatories of the Circular Procurement Green Deal. The aim of this Green Deal is to learn from each other's experiences by starting up circular procurement processes and to speed up circular purchasing. The more than 60 participants have a great deal of knowledge and experience. Alliander makes a major contribution to these objectives, involving such things as protective clothing, transformers, redeveloping office space, coffee cups, furniture and fair meters. In 2016, we integrated circular procurement into our purchasing processes. Each quarter we report on the percentages of circular procurement and recycling. There is a clear roadmap for achieving our targets. The percentage of circular procurement is still very small because of the lack of reliable data from our suppliers. Implementing a raw materials or goods passport, therefore, has the highest priority for 2017.

Green networks
In addition to our own activities, we are permanently exploring opportunities for cooperation in sustainability with other infrastructure managers. Alliander is an initiator of the Green Networks platform consisting of eight national infrastructure managers and which is working to create a climate-neutral and circular national infrastructure sector. In 2016 the partners in the Green Networks (Alliander, Enexis, Gasunie, ProRail, KPN, Stedin, TenneT and Rijkswaterstaat) signed a mission statement for climate-neutral and circular infrastructure. It expresses their wish to cooperate intensively on energy saving, circular materials usage and the use of renewable energy for constructing, managing and maintaining our infrastructure.

Cooperation with the government
In 2016, Alliander joined the Ministry of Infrastructure and Environment's programme Nederland Circulair! which includes a group of parties such as Evides, Wavin, Prysmian, Waternet, Brabant Water, MVO Nederland, Thermaflex, Van Gansewinkel, TKF and Sita cooperating in three areas.

- Developing innovative approaches that lead to improvements in various links in the chain and to optimizing solutions, for example with greater scope for alternatives in tenders.
- Setting up returns logistics to keep valuable raw materials within the chain.
- Designing and implementing according to circular principles, such as using cables produced with recycled materials that are designed to have another use at the end of their lives.

Outlook for 2017
As all the key steps in our ambitious programmes are in place, we will again be making major progress towards climate-neutral and circular operations in 2017. With respect to CO_2 additional attention will be given to vehicle emissions, with new policies and by moving in a sustainable direction with our employees. Our greening will be ramped up. In addition we will work closely with our suppliers to raise the level of knowledge of circular materials usage in the supply chain and to improve our combined procurement performance.

Looking ahead: what you can expect from us

Results

Given the regulated status of the majority of Alliander's operations, the existing regulatory system and the changes in tariffs in 2017, Alliander expects to report a higher operating profit than in 2016 (barring unforeseen circumstances and incidental occurrences).

Capital expenditure

The gross capital expenditure on the networks, relating mainly to replacement investments and expansion, but also on investments relating to the energy transition and ICT, is expected to total more than €750 million. The level of our long-term investment programme will be dictated in part by the extent to which decentralised generation and feed-in to the power grid expands.

The mass rollout of smart meters begun in 2015 will be scaled up in 2017 and is expected to involve an investment in excess of €100 million this year.

Financial policy

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

Importance of sustainability to future financing

In recent years there has been a dramatic shift in the flows of funds provided by the capital markets. Major investors have let it be known that they intend to invest a proportion of their overall investment portfolio in sustainable assets. The market for Green Bonds has seen robust growth. When it comes to financing, a company's sustainability performance is becoming ever more important and investors are increasingly applying sustainability criteria in their selection of assets. In April 2016, Alliander, too, issued a Green Bond loan, for a total of €300 million. As a consequence, in any assessment of Alliander by the capital market, the company's CSR credentials carry growing weight alongside its financial performance.

Increasingly, therefore, our financial performance has to be judged in conjunction with the way we discharge our public responsibility. We began making an impact assessment of Alliander in 2015, quantifying the effect of our actions on the world at large in economic, social and ecological terms. In 2016 we made further progress in the development of this social impact measurement process. The section headed 'Our impact' looks at the methodology and results connected with our social impact in specific detail.

Alliander will be seeking further improvement in its sustainability performance in the years ahead, with the goal of becoming a climate-neutral company by 2023. In 2017 we expect to meet 30% of our grid losses with energy from renewable sources. And at the start of 2017 we move into our totally renovated head office. The improvements to this building go a long way to achieving sustainability, with a reduction in energy consumption of 80%. In addition, we are continuing to make our assets more energy-efficient. Details of our various plans and goals can be found in the Alliander Annual Plan 2017 on the website www.alliander.com.

What have we learned?

Alliander always aims to perform its duties and activities to the best of its ability. But certain incidents, developments and events can still have unforeseen consequences. We want to learn from these experiences in order to further enhance the quality of our organisation. In this section, we present some key moments and events in 2016.

Fatal accident in Elst

What happened?

In February, we were shocked by the news that one of our colleagues of Liandon died following an accident while performing voltage transformer measurements at the substation in Elst. This made a deep impression throughout the company. Liandon commissioned an independent investigation into the immediate and underlying causes of the accident.

What have we learned?

Based on the findings, we took measures to make our measurement work even safer. Liandon tightened up the instructions for safe measurements and the lessons learned were shared in meetings at sector level. In addition, safety risks and measures are now specifically mentioned during the pre-job meetings at the start of every day. It is good to note that effective steps to improve safety were made in the past years, but every incident is one too many.

Data theft

What happened?

In September 2016, the grid operators were confronted with an alleged theft of client data from two million homes in the central registers which are administered by Energy Data Services Netherlands (EDSN). It is about the energy contract data such as annual, type of connection and the termination date of the contracts. These data are kept in a central register for the entire sector. The presumed theft took place through an energy supplier. According to this energy supplier, the theft was perpetrated by one employee who is no longer with the company. The data can possibly be used to send unsolicited product offers (energy contracts) by post.

What have we learned?

This was the first time that energy contract data of customers were stolen on such a large scale. The theft of the data came to light during the monitoring of the national registers by the network operators. Steps have now been taken to minimise the risk of wrongful use of the data and to exclude the possibility of system abuse in the future. To this end, regulators (the Dutch Data Protection Authority and the Netherlands Authority for Consumers & Markets), industry organisations (the Association of Energy Network Operators in the Netherlands and Energie-Nederland) and other relevant parties are working closely together. Amongst other things, requests for data are now monitored to identify irregularities more quickly and to take measures against the party who is at fault.

Major power outage in Alphen aan den Rijn

What happened?

On Sunday, 7 February 2016, a major energy outage occurred in the west of Alphen aan den Rijn, leaving much of the region without power. The incident affected 64,000 households in various places, including Alphen, Benthuizen and Moerkapelle. Rail services in the region were also brought to a standstill. The outage arose in a switching station, where a safety mechanism was wrongly triggered causing the regional power supply to be cut.

The outage took place following the replacement of safety components during maintenance work in part of the station (the medium-voltage section). The impact of these replacements had been carefully assessed in preparation for the project. When the work was completed, the safety mechanisms were also tested for proper operation. As the test results were positive, the station was started up again. However, when a subsequent short-circuit occurred in the network, a back-up safety mechanism in another part of the station (the high-voltage section) was wrongly activated, leading to a large-scale outage.

What have we learned?

During preparations for similar maintenance work in the future, we must take more account of the interdependencies between the various safety mechanisms and back-up safety mechanisms at both medium-voltage and high-voltage level. In future, we will also conduct additional tests before restarting the installations in order to prevent that safety mechanisms wrongly shut down the system.

Gas network obsolete after three years

What happened?

Three years ago, Liander constructed a new gas network in a neighbourhood in Arnhem. A few years later, different energy choices were made in that neighbourhood. During extensive renovations, the housing association fitted out the homes with insulation, solar panels and heat pumps. As a result, the gas network was no longer necessary.

What have we learned?

Energy infrastructure has an average useful life of 40 years. In this specific case, the gas network operated for a mere three years. We have learned that we must work more intensively with third parties to better anticipate expected developments at local and regional level. When large-scale renovation projects are planned, we must work with the local authorities to make the most responsible choices at the lowest social costs.

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 2016, 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

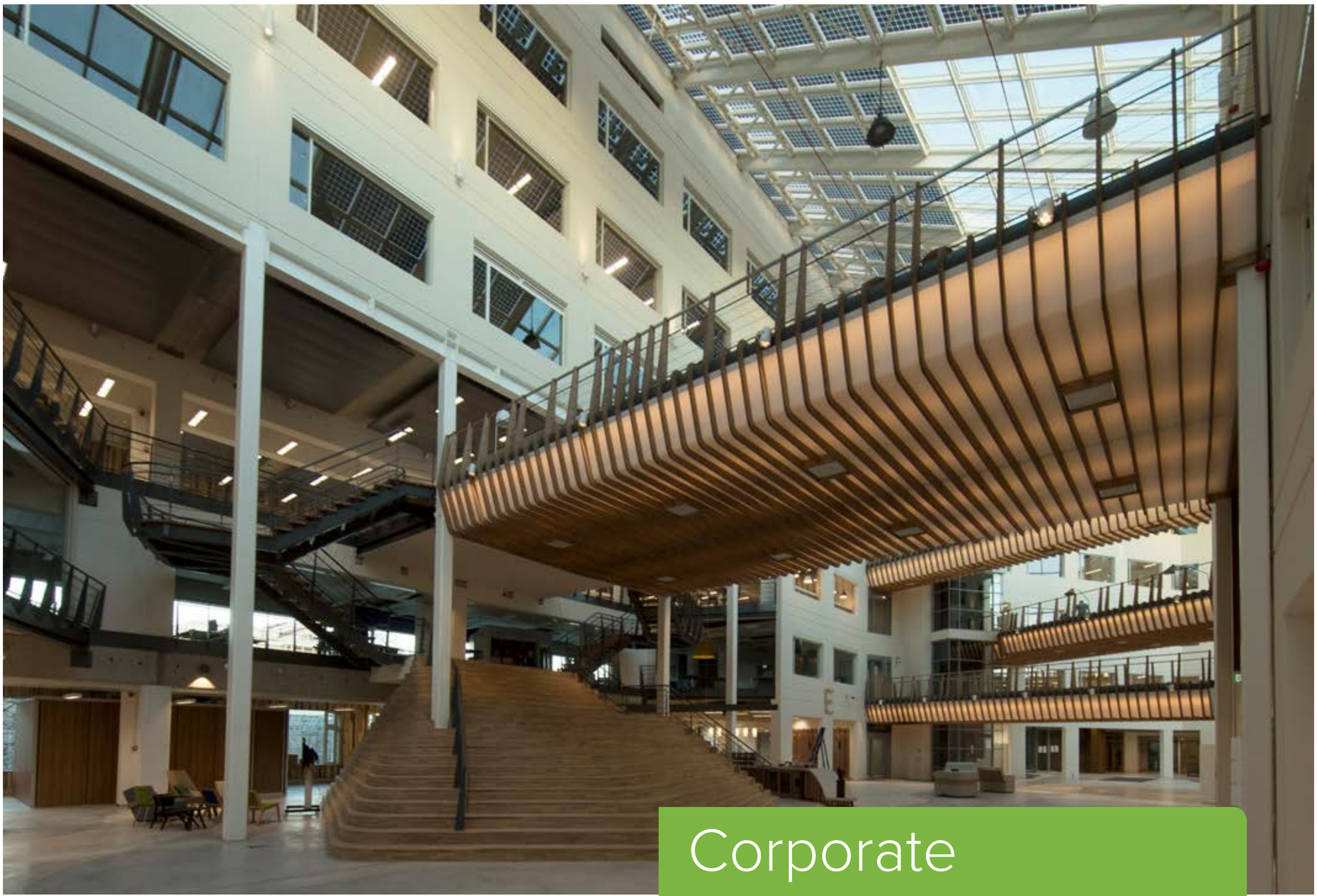
We state that:

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 2016 and of the business during the 2016 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, 6 March 2017

The Management Board

Peter Molengraaf, chairman
Mark van Lieshout, member
Ingrid Thijssen, member



Corporate governance

Corporate governance

As a large energy network company that plays a pivotal role in Dutch society, Alliander attaches great importance to careful management, effective supervision and transparent reporting to all stakeholders. For this reason, Alliander – though not listed on the stock exchange – voluntarily applies the Dutch Corporate Governance Code wherever possible and applicable.

Revision of the Code

The Dutch Corporate Governance Code (the Code) was adopted in 2003 by the then Tabaksblat Committee. The last revision was performed by the Frijns Committee in December 2008. In February 2016, the Van Manen Committee submitted a proposal for a revision of the Code and the updated Code was published on 8 December 2016. The most important new elements are the focus on long-term value creation and the introduction of culture as part of good corporate governance.
The Code is effective from the financial year starting on or after 1 January 2017. This means that we will report on our compliance with the revised Code for the first time in 2018 (Report of the Management Board for 2017), provided that the cabinet transposes the revised Code into Dutch law in 2017. In 2017, Alliander will amend its articles of association, by-laws and procedures to bring them into line with the revised Code, where possible and/or relevant. The Annual Report 2017 will be based on the revised Code. You can download the existing and revised Codeon www.commissiecorporategovernance.nl.

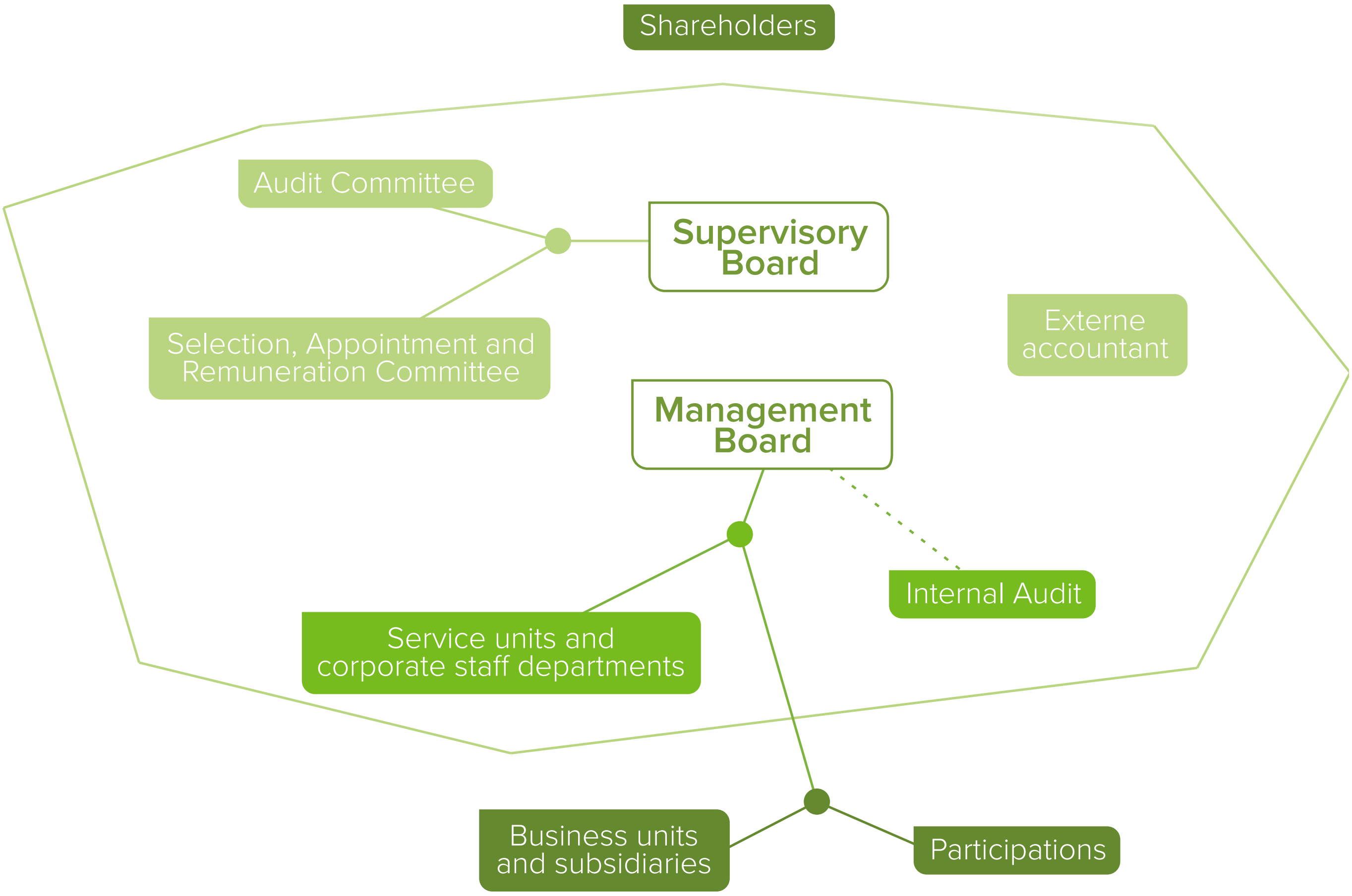
Alliander N.V.

Alliander N.V. (Alliander) is a public limited company according to Dutch law. The shares of Alliander are held by Dutch provinces and municipalities and are not listed on the stock exchange. As a company with statutory two-tier status, Alliander is managed by the Board of Management, 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. Amendments are made to the articles of association wherever necessary to comply with the law. The articles of association were last emended on 4 August 2015.

Corporate governance structure and governance roles 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. The Management Board, the Supervisory Board and the General Meeting of Shareholders are responsible for this. To ensure the competent performance of these duties, they receive support from an effective risk management framework, an internal audit function and the external auditor.
The governance structure is based on Book 2 of the Dutch Civil Code, the Code, the company's articles of association and various sets of internal rules and by-laws. The Gas Act and the Electricity Act 1998 also contain various provisions that influence the company's governance. In addition, Alliander operates a Code of Conduct (including Insider Trading Policy) and a Whistleblower Policy. The articles of association, various sets of rules and by-laws and other corporate governance documentation are posted on the website of Alliander.

Governance structure of Alliander



Management Board

In 2016, the Management Board of Alliander consisted of three members. More information about the members of the Management Board is given in the Members of the Management Board chapter of this annual report.

Duties and responsibilities

The Management Board is tasked with the management of the Alliander Group. Its responsibilities include:

- realisation of the company´s objectives;
- strategy and related risk profile;
- development of the results;
- corporate finance;
- compliance with laws and regulations;
- risk management;
- corporate social responsibility aspects that are relevant to the company.

The Management Board ensures that its actions are based on a balanced consideration of all relevant interests of stakeholders, including customers, shareholders (and other providers of capital), employees and society.
The Management Board performs its management duties as a collegiate body, based on an allocation of tasks to individual members. Each and every change in this allocation of tasks requires the approval of the Supervisory Board. Though each member of the Management Board is responsible for the tasks assigned to him or her, the entire Management Board carries collective responsibility. Both the Management Board and each member of the Management Board is authorised to represent the company.

By-laws of the Management Board

In addition to the statutory regulations and the relevant provisions in the articles of association, the Management Board must adhere to the by-laws of the Management Board. These by-laws set out the responsibilities, tasks and procedures of the Management Board.

Appointment
The Supervisory Board appoints the members of the Management Board for an indefinite period. This is a departure from the recommendation in the Code (appointment for a maximum period of four years). Periodic appointments as prescribed in the Code entail a risk for the implementation of the corporate policy, which has an inherently long-term nature. The Supervisory Board notifies the General Meeting of Shareholders of a proposed appointment.

Dismissal
The members of the Management Board are suspended or dismissed by the Supervisory Board. The Supervisory Board shall not dismiss a member of the Management Board before hearing the General Meeting of Shareholders about the proposed dismissal.

Supervisory Board

At year-end 2016, 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 of this annual report.

Duties and responsibilities
The Supervisory Board has three roles: supervisor, adviser and employer of the Management Board. The Supervisory Board supervises and advises the Management Board with regard to the policy and Alliander's operations in general, including:

- realisation of the company's objectives;
- strategy and risks arising from the operational activities;
- internal risk management and control systems;
- financial reporting.

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 fulfils its duties as a collegiate body with collective responsibility.

By-laws of the Supervisory Board
In addition to the statutory regulations and the relevant provisions in the articles of association, the Supervisory Board has also adopted by-laws to ensure its proper functioning. It is required to adhere to these by-laws, which provide for the composition, committees, duties and powers, meetings and decision-making of the Supervisory Board.

Appointment
The General Meeting of Shareholders appoints the members of the Supervisory Board, upon the nomination of the Supervisory Board. Both the General Meeting of Shareholders and the Central Works Council can recommend candidates. The Supervisory Board is in principle obliged to nominate one third of its members upon the recommendation of the Central Works Council ('enhanced right of recommendation'). The General Meeting of Shareholders also has an enhanced right of recommendation for the nomination of one third of the Supervisory Board members.
To be eligible for appointment or reappointment, a candidate must meet the criteria as set out in the profile of the Supervisory Board. The profile is a guideline for the composition and size of the Supervisory Board. A Supervisory Board member is appointed for a four-year period and resigns, in accordance with the schedule of resignation, no more than four years after his/her appointment. A Supervisory Board member can be reappointed twice, and shall resign after three four-year terms of office or, if earlier, in the year that he or she turns 70. In special circumstances, the Supervisory Board is entitled to make an exception to the above.

Dismissal
A Supervisory Board member can be suspended by the Supervisory Board. Only the Enterprise Section of the Court in Amsterdam can dismiss a Supervisory Board member. The General Meeting of Shareholders can only withdraw its confidence from the full Supervisory Board and cannot dismiss individual Supervisory Board members.

Committees
The Supervisory Board has two standing committees.

Audit Committee

The committee advises on, among other things, the financial reporting, the effectiveness of the internal risk management and control systems, the role and functioning of the Internal Audit Department, the relationship with the external auditor and the risk management in relation to the application of information and communication technology.

Combined Selection, Appointment and Remuneration Committee

The committee advises on, among other things, the composition of the Supervisory Board and the Management Board and about the conditions of employment (including remuneration) of the members of the Management Board. It also assesses the functioning of the members of the Management Board at least once a year. In addition, it prepares the Remuneration Report.

Each committee has its own by-laws setting out its tasks, responsibilities and procedures. The committees meet independently and do the preparatory work for the full Supervisory Board in specific areas. Each and every committee meeting is reported on in the meeting of the full Supervisory Board. Decision-making takes place on the basis of these reports.

General Meeting of Shareholders

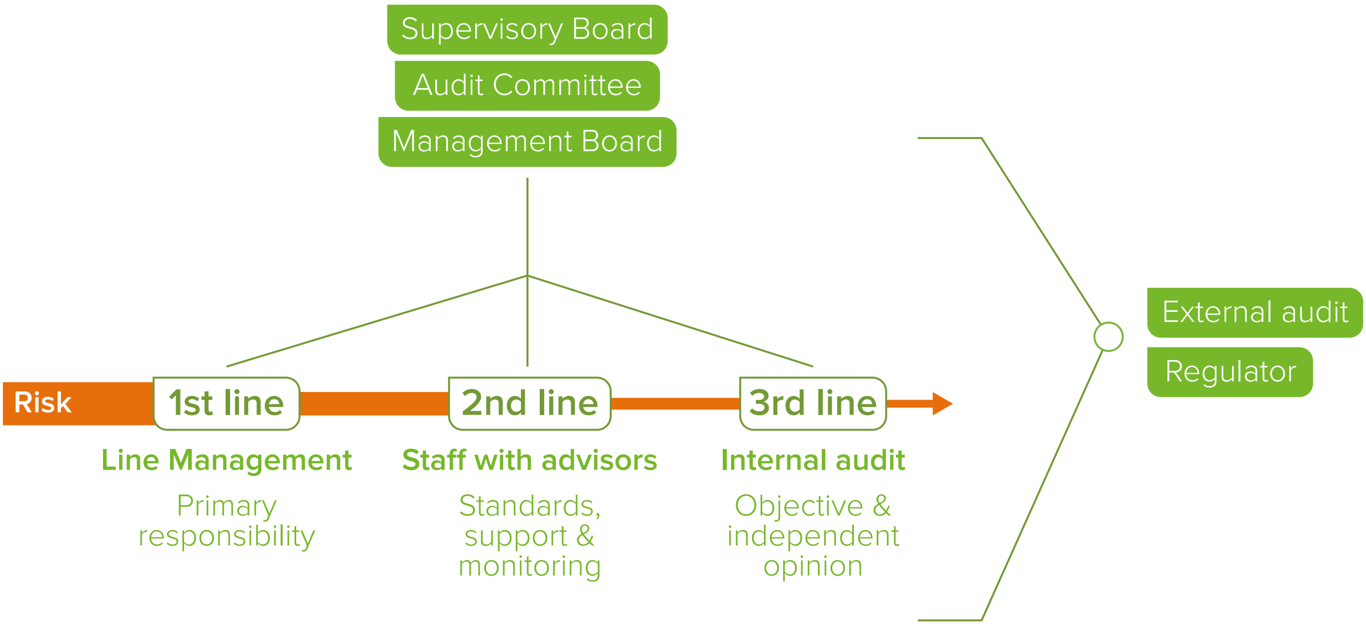
The shares of Alliander are held directly or indirectly by 56 public shareholders (municipalities and provinces). Alliander organises a General Meeting of Shareholders within six months after the end of the financial year. The agenda includes the following subjects insofar as relevant:

- discussion of the annual report;
- external auditor's explanation of the audit opinion;
- adoption of the financial statements and the dividend;
- discharge of the Management Board and the Supervisory Board from responsibility;
- appointment of members of the Supervisory Board;
- appointment or reappointment of the external auditor.

An overview of the other most important powers of the General Meeting of Shareholders is posted on the website Alliander.com. 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.
All decisions are made on the basis of the 'one share is one vote' principle. Decisions are made with an absolute majority of votes, unless the law or the company's articles of association explicitly prescribe a larger majority.
Extra 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. The risk management and internal control system is updated in line with internal and external developments. We apply the 'three lines of defence' model for the 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 Alliander Resilience Committee. In mid-2016, the former Risk Management Committee was fully incorporated into the Alliander Resilience Committee. This committee, with the CFO as chairman, issues recommendations to the Management Board and the management team of Liander on risk acceptance, risk profile, external risk reporting requirements, exceptions of a temporary nature or events that diverge from the applicable risk policy and acceptance. In addition, the committee approves guidelines for Governance, Risk and Compliance that arise from approved policy, and makes adjustments in respect of specific risk-related issues. The committee discusses internal and external risk reports, and monitors and advises on the follow-up on internal and external audits. Finally, it also promotes the embedment of risk management and internal control processes within the business units and chains of Alliander.
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. In 2016, the Management Board updated the risks in relation to the Alliander strategy, based on a risk session. The main risks are set out in this annual report at Risk information.
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. The department also makes proposals for improvements and functions as a Fraud Disclosure Office within Alliander.

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

Audit Plan

Every year, Internal Audit draws up an audit plan based on risk reports and the 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 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 and the actions taken on the recommendations.

External auditor

The external auditor is appointed by the General Meeting of Shareholders. To this end, the Supervisory Board makes a nomination, based on advice from both 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. In addition to an audit opinion, 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 Audit Committee´s duties in its relationship with the external auditor are to:

- Assess the remuneration of, and engagement conditions for, the annual audit by the external auditor
- Assess how the external auditor is involved in the content and publication of financial reports, other than the financial statements
- Act as the principal contact for the external auditor if the latter finds irregularities in the content of financial reporting

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

Compliance with the Code

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.6.5 and IV.3.1. We explain these departures in greater detail on the website Alliander.com.

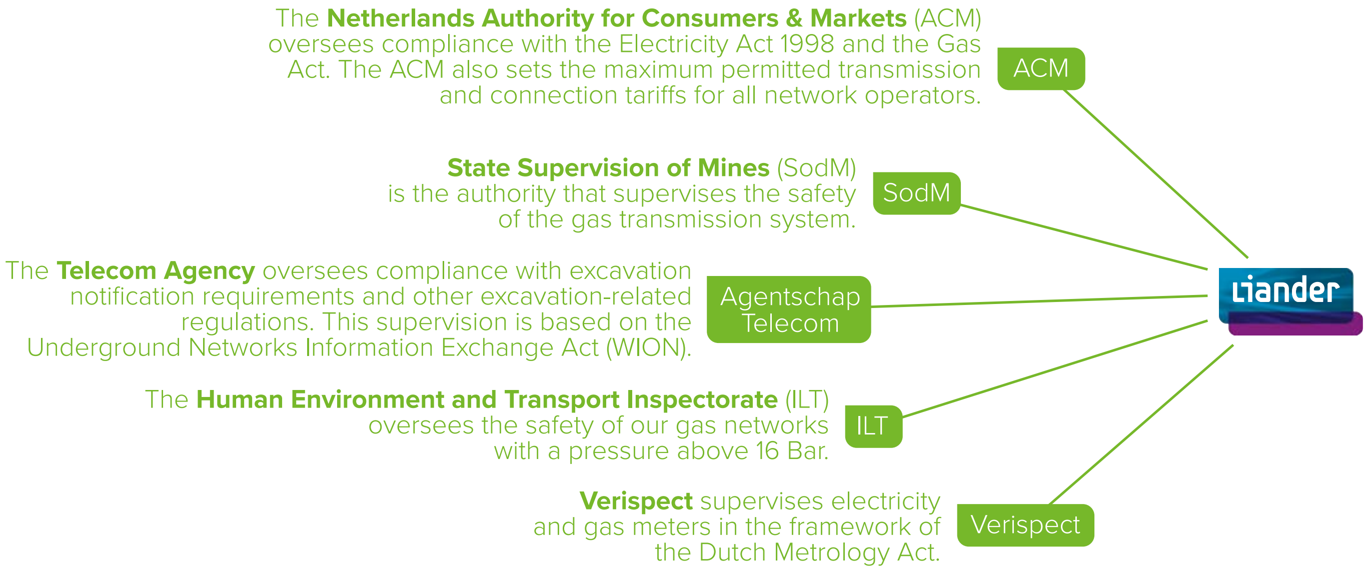
Corporate governance statement

This chapter may be regarded as the corporate governance statement referred to in Article 2a of the Decree on Additional Requirements for Annual Reports (Vaststellingsbesluit van 23 december 2004 tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag' ('the Decree')). The information required 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. This information must be deemed to have been incorporated and repeated in this statement.

Supervision of the network operator

As our network operator Liander fulfils a vital role in society and operates in a regulated market, its activities are carefully supervised by external organisations. Among other things, they supervise compliance with specific legislation and regulations.

Overview of regulators



Code of conduct, integrity policy and complaints policies

Alliander is strongly committed to integrity and reliability. This is explicitly expressed in its Code of Conduct, Insider Trading Policy and Whistleblower Policy.

Code of Conduct

The Alliander Code of Conduct formally sets out how we deal with business partners, company and personal interests, business assets, confidential and non/confidential corporate information and safety as well as the rules of behaviour that apply within Alliander. In this way, we protect customers, associates and the reputation of Alliander, and jointly safeguard a pleasant and safe working environment. If necessary, measures are taken against undesirable behaviour.

Whistleblower Policy

The integrity policy includes a 'Complaints Procedure for Undesirable Behaviour' and a Whistleblower Policy. Employees can also raise concerns in confidence with Nominated Officers within Alliander. The Whistleblower Policy lays down how suspicions of malpractice of a general, operational and financial nature must be reported and handled within Alliander. All reports are treated in confidence. A whistleblower's legal position shall not be compromised in any way as a result of reporting suspicions of malpractice.

Insider Trading Policy

The 'Insider Trading Policy for Alliander N.V and Subsidiaries' is applicable to employees who are directly or indirectly involved in Alliander's transactions in financial instruments or have access to insider knowledge. The purpose of this policy is to prevent the use of insider knowledge and conflicts of company and personal interests (or any semblance thereof) in relation to certain transactions. The Insider Trading Policy forms part of the Alliander Code of Conduct. The Insider Trading Policy is also applicable to the members of the Management Board and the Supervisory Board.

Members of the Management Board

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) (until 1 March 2017);
- Chairman of the employers' association for Energy, Cable & Telecom and Waste & Environment Businesses (WENb) (until 1 March 2017);
- Member of the Supervisory Board of Vopak Nederland B.V. [2]
- Member of Board of Directors of European Distribution System Operators for Smart Grids (EDSO)

2 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 and COO of Alliander effective from 1 March 1 2014; she is also responsible for the business and operational management of the network operator Liander. From 2011 to 2014, she chaired the Management Board of NS Reizigers B.V. Between 1997 and 2011, she held various executive and management roles at Nederlandse Spoorwegen.

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

Supervisory Board memberships / relevant other positions:

- Member of the Board of Overseers of HU University of Applied Sciences.
- Member of the Customer Centricity Advisory Board of the Dutch Banking Association.
- Member of the Supervisory Board of health insurer VGZ (effective from 1 January 2017)

Members of the Supervisory Board

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

Ms A. Jorritsma-Lebbink (1950), chairwoman (from 1 July 2016)

- Nationality: Dutch
- First appointed to the Board on: 1 July 2016
- Current term ends in: 2020

- Alliander committee: member of the Selection, Appointment and Remuneration Committee
- Profession/chief position: Dutch Senate member for VVD (People's Party for Freedom and Democracy) since 9 June 2015, and VVD Senate leader since 24 November 2015
- Relevant previous positions: started her national political career as a member of the Dutch House of Representatives in 1982. Served in two successive governments (Kok I and Kok II) as, respectively, Minister of Transport, Public Works and Water Management and Minister of Economic Affairs and Deputy Prime Minister. From 2003-2015, Ms Jorritsma was Mayor of Almere
- Relevant other positions: member of the Supervisory Board of PricewaterhouseCoopers (PWC) Nederland B.V. [3], chairwoman of NVP (Netherlands Private Equity and Venture Capital Association), member of the Supervisory Board of NBTC Holland Marketing, National Female Executive Ambassador, chairwoman of 'Public Sector Manager of the Year' Foundation, chairwoman of KNHM (network to promote joined-up sustainable communities), jury chairwoman for 'Business Woman of the Year', chairwoman of Football & Safety Audit Team, chairwoman of the Supervisory Board of "Real Next" Foundation.

G.L.M. Hamers (1952), from 7 April 2016

- Nationality: Dutch

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

- First appointed to the Board on: 7 April 2016
- Current term ends in: 2020

1. Alliander committee: member of the Audit Committee
2. Profession/chief position: CEO Vanderlande Industries Holding B.V.
3. Relevant previous positions: CEO of international shipbuilder IHC Merwede (now: Royal IC)
4. Supervisory position at a large legal entity within the meaning of the Dutch Management and Supervision Act (Wet Bestuur en Toezicht).
5. Relevant other positions: Member of the Supervisory Board of EXA Holding [3], member of the International Advisory Board of Bureau Veritas (Testing, Inspection and Verification), member of the Advisory Council of Brainport Industries, Board Member of High Tech NL, chairman of the Export Policy Committee of VNO-NCW, member of the National Export Committee, member of LRN (Netherlands Aerospace Board), board member of NCH (Netherlands Centre for Trade Promotion)

Ms J.G. van der Linde (1957)

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

- Alliander committee: member of the Audit Committee
- Profession/chief position: Director of Clingendael International Energy Programme
- Relevant other positions: member of the Supervisory Board of Wintershall Nederland B.V. [3], member of the Supervisory Board of Wintershall Noordzee B.V. [3], member of the International Advisory Board of KAPSARC

B. Roetert (1956)

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

- Alliander committee: chairman of the Selection, Appointment and Remuneration Committee
- Profession/chief position: Director/Owner of Advies, Bestuur en Toezicht (AB&T)
- Relevant previous positions: CEO of Schuitema N.V./C1000 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 Supermarkten [3], chairman of the Supervisory Board of Scherpenzeel B.V., member of the Supervisory Board of Royal Smilde [3], member of the Supervisory Board of Noviflora Beheer B.V., chairman of the Advisory Council of SMEVA Valkenswaard, member of the Advisory Council of Hessing Supervers, Treasurer of Afvalfonds Verpakkingen, Board Member 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: 2020

- Alliander committee: chairwoman of the Audit 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: Board chairman of the Supervisory Board of Arcadis Netherlands [3], member of the Supervisory Board of LeasePlan Corporation N.V. [3], adviser to National Register of Supervisory Directors and Regulators, board member of Stichting Preferente Aandelen Nedap, guest lecturer at Nyenrode Business University and Erasmus University Rotterdam, chairwoman of Accountancy Monitoring Committee

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

Resigned members in 2016

Mr. E.M. d'Hondt (1944), chairman (until 1 July 2016)

- Nationality: Dutch
- First appointed to the Board on: 30 June 2009

- Alliander committee: member of the Selection, Appointment and Remuneration Committee
- 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), 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

Mr J.C. van Winkelen (1945), vice-chairman (until 7 April 2016)

- Nationality: Dutch
- First appointed to the Board on: 30 June 2009
- Alliander committee: 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 (until 31 December 2016), adviser to Hak N.V. (until 13 December 2016)

Report of the Supervisory Board

As the Supervisory Board, we supervise and advise the Management Board - also proactively - with respect to the formulation and realisation of Alliander's objectives, strategy and policy. We also act as the employer of the Management Board. In addition, we maintain contacts with internal and external stakeholders. In this report we account for the manner in which we fulfilled our tasks and powers in the past year.

Report on the supervisory task of the Supervisory Board

Strategy

In 2015, Alliander recalibrated its strategy in line with the changing energy landscape. The realigned strategy provides a solid basis for Alliander's future. We kept close track of the implementation of the strategy in 2016, and note that concrete steps were made within all four strategic pillars. Particular attention was given to investments in new business activities, notably the Allego and Alliander Duurzame Gebiedsontwikkeling business units. The governance and control of the innovation portfolio also received due consideration. This has led to changes in the information to the Supervisory Board and our commitment to the new business.

Regarding the mandatory unbundling of energy companies in the Netherlands, we note the following. Under enforcement decisions taken by the Netherlands Authority for Consumers & Markets (ACM) in late 2015, Delta and Eneco are required to complete their unbundling by, respectively, 30 June 2017 and 31 January 2017. The Eneco shareholders approved the company's unbundling plan on 30 November 2016. The events surrounding Delta unfolded in rapid succession. Early in December 2016, it was announced that Delta had reached an agreement with the Swedish investment company EQT Infrastructure for the proposed sale of Delta Retail. After lengthy deliberations, the cabinet and the provincial authorities of Zeeland came to the conclusion that the network group could not be kept in the province's hands. Based on this outcome, the external selling process was started up and Delta requested Alliander as one of the parties to consider taking over the Zeeland-based network group.

The Supervisory Board approved the proposal to take over 100% of the shares in Inquam Deutschland GmbH (Inquam). This company owns a 450 MHz radio frequency and Alliander AG is looking to expand this network in order to facilitate energy data transmission in Germany. In the Netherlands, Alliander (together with Stedin) has already built a wireless communication network for the transmission of data from smart meters and networks. This CDMA network also operates on a 450 MHz radio frequency. The takeover of Inquam is in keeping with Alliander AG's strategy to become a service provider for network operators, cities and municipalities. The 450 MHz CDMA network (a mobile communication network for critical infrastructure) is a key pillar of this strategy.

On 9 December 2016, Minister Kamp of Economic Affairs submitted an energy transition bill (Voortgang Energietransitie/VEt). We regret that this bill fails to provide network companies with the scope they need to develop and implement new initiatives in the field of energy transition. The VEt bill is neither conducive to the energy transition nor to the public interest. On 17 January 2017, the standing committee for Economic Affairs of the Dutch House of Representatives had a roundtable meeting with relevant parties and stakeholders to discuss the VEt bill. Ms I.D. Thijssen represented Alliander at this debate. Alliander's fundamental objections to the VEt are that the bill is counterproductive for the Energy Agenda, the energy transition and the market mechanism. At the time of writing this report, the bill had not yet been adopted by the House of Representatives.

Realisation of corporate objectives

We, together with the Management Board, continuously take stock of the progress made towards the realisation of the corporate objectives. The Supervisory Board also ascertains whether the organisation is sufficiently flexible to adapt in an effective and timely manner. We have concluded that the quarterly reports generate adequate information to monitor the progress of the realisation of the corporate objectives. The main operational developments and problems are another focus of attention. The specific corporate objectives that Alliander sets itself in a year are defined in measurable financial and non-financial objectives, with adjustments being made whenever necessary. As outlined in this annual report, the Year Plan 2016 that we approved and the underlying corporate objectives were largely achieved.

We looked closely at the impact of the development of results, the balance sheet ratios and the financial position on the company's creditworthiness. We note with satisfaction that the credit ratings of Standard & Poor’s (AA-/A-1+ with stable outlook) and Moody’s (Aa2/P-1 with stable outlook) were reaffirmed in 2016. Both ratings reflect Alliander’s strong creditworthiness. This guarantees adequate access to the capital market.

Design and effectiveness of internal risk management and control systems

The findings from the internal audits were discussed, as were the follow-up actions taken on the resulting audit findings. The Supervisory Board monitors the progress of these actions every six months based on 'in control' reports from the Internal Audit Department. We noted that the follow-up on the Internal Audit findings continued to receive the company's full attention in 2016 and see this as a positive trend.

In addition, the management letter from Deloitte, containing the 2016 interim audit findings on the internal controls (and the management's reaction to these findings), was discussed with the Audit Committee and the Supervisory Board in December 2016. During the interim audit, the auditor found that the internal control environment is robust. The recommendations this year included actions on IT access security and authorisation change management. Management took appropriate mitigating measures in response to the recommendations set out by Deloitte in its management 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. New and more transparent risk reporting was introduced effective from the second quarter. We noted that the risk awareness and quality of risk management within the organisation both improved during the year. A description of the main risks is included in the Risk Information chapter in the report of the Management Board.

Financial reporting

Throughout the year, the development of the operational and financial results was discussed on the basis of the quarterly reports. Subjects raised included the development of costs and results, the reduction of the cost of capital (WACC) for the new tariff regulation period, FTE movements and the increased sufferance tax costs.

An extensive discussion was conducted with the previous external auditor PricewaterhouseCoopers Accountants N.V. (PWC) about the 2015 financial statements and annual report and the main audit findings.

We also reviewed Alliander's 2016 half-year report, including the report on the findings of the current external auditor, Deloitte. Furthermore, the operational year plan 2017 (including investment budget) was reviewed and approved and the 2017-2021 financial plan was discussed. The Audit Committee of the Supervisory Board carried out intensive preparatory work on all these matters.

Compliance with legislation and regulations

To promote and supervise compliance with external laws and regulations as well as internal codes, Alliander has structured a compliance function within the Governance, Risk & Compliance Department. 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 internal Fraud Disclosure Office. Internal Audit carried out various compliance audits to ascertain whether Alliander is compliant with relevant legislation and regulations as well as internal regulations, standards and values. The Supervisory Board gave consideration to the mitigating measures taken in response to two cases of fraud that occurred in 2015. Furthermore, after an extensive investigation, the ACM ruled on the enforcement request made by a market party about Allego and the Hoom, Exe and MPARE start-ups. The ACM concluded that these activities of Alliander are compatible with the regulatory frameworks. The complainant has lodged an appeal.

We were also informed about the theft of energy data of some 2 million households from the central data registers of the regional network operators. A breach of integrity on this scale is an extremely serious matter, and we assume that all parties will join forces to take all action necessary to further reduce the risk of abuse of energy data in the future.

The Management Board kept us informed of the progress and developments relating to the most important claims and proceedings as well as new laws and regulations relevant for Alliander, such as the energy transition bill (VEt) and the bill to abolish sufferance tax on, among other things, electricity cables and gas pipes in public land.

Relationship with shareholders

Barring the General Meeting of Shareholders, the Supervisory Board has limited contact with shareholders as a corporate body. The chairman of the Management Board is the primary point of contact for shareholders.

The full Supervisory Board attended the annual General Meeting of Shareholders on 7 April 2016. During this meeting, the financial statements for 2015 were adopted, the strategy was explained and the shareholders appointed Mr Hamers and Ms Jorritsma-Lebbink as new members of the Supervisory Board.

In 2016, we twice sought advice from the Committee of Shareholders [4] regarding the filling of Supervisory Board vacancies. In addition, the Committee was consulted in the context of the General Meeting of Shareholders about two WNT-related executive pay issues, namely the Management Board remuneration policy and the development of a sector code for executive pay.

Based on the foregoing, we are of the opinion that Alliander takes a constructive and careful approach to its shareholders' interests.

Relevant CSR aspects

Corporate Social Responsibility (CSR) is an integral part of Alliander's strategy. Progress on CSR objectives is monitored on the basis of quarterly reports.

The Alliander Annual Report 2015 won two awards: the FD Henri Sijthoff Award 2016 (for best financial report) and the Crystal Prize 2016 (for the most transparent CSR annual report). We complimented the Management Board on this unique achievement. Key aims for the 2016 report are to provide more openness on the social impact of our activities and to further expand impact measurement and reporting. More information about this is contained in Our Impact in the report of the Management Board.

Every year, the external auditor reviews the CSR annual report. The resulting opinion is outlined in the assurance report, which forms part of this annual report.

Finally, one highlight that should not remain unmentioned is the election of MS I.D. Thijssen (Management Board member) as Top Female Executive of the year 2016. She sees her title as an opportunity to actively generate attention for two major CSR issues: diversity in executive leadership and the transition from fossils to renewables.

Other subjects

Safety

The Management Board regularly informed us about topical safety issues, such as serious accidents, major gas outages or explosions, the outcomes of related investigations and, even more importantly, the measures taken or proposed. We see safety as a top priority for the company and note that further progress has been made in relation to, amongst other things, the implementation of the Safety Ladder at various business units. Raising safety awareness is and remains a major focus area.

Recruitment challenge

One point of concern, particularly in the western part of the Netherlands, is the unexpectedly strong increase in demand for electricity and the simultaneous tightening of the labour market for technicians. We extensively discussed measures to address this issue with the Management Board. The current estimation is that skills shortages will continue to cause inconvenience for customers until 2020.

WNT

We are worried about the possible expansion of the scope of the Public and Semi-Public Sector Executives Pay (Standards) Act (WNT) through the proposed WNT Evaluation Act and the proposed extension of the Act to other executive roles (WNT-3). Particular concerns are the unequal playing field for Alliander compared to state enterprises such as TenneT and Gasunie [5], the levelling down of the entire wage structure and a further erosion of Alliander's competitiveness in the labour market.

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

5 State enterprises fall outside the scope of the WNT because the state, as shareholder, is fully authorised to set the remuneration policy of these enterprises.

Against this backdrop, our former chairman sent a letter to the supervisory boards of other network companies, inviting them to exchange thoughts on remuneration and the formulation of a sector code similar to the code agreed by health insurers. An initial meeting with delegations of supervisory boards of network companies took place in June 2016. This resulted in the agreement to work out some of the suggestions and actions in bilateral contexts with those who are open to this initiative and to resume contact in the event of new developments.

Other important subjects

Alongside the above issues, various other subjects were put to us for decision-making. These included the approval of the decision of the Management Board to raise funding through the issuance of a Green Bond of EUR 300 million under the EMTN programme. We believe that this green bond marks a new milestone towards the realisation of Alliander's sustainability ambitions. We also approved the strategy for Alliander AG. For two Management Board members, Messrs Molengraaf and Van Lieshout, we confirmed the realisation of the objectives for the short-term variable remuneration for 2015 and the long-term variable remuneration for 2013-2015 as well as the final award and payment of the long-term variable remuneration for 2014-2016. Other subjects discussed were:

- the monitoring of the changes in the culture and business processes of Liander in order to realise its ambition as excellent network operator;
- an update on the large-scale smart meter offering;
- an update on the digitisation of the networks;
- the outcomes of the annual employee survey;
- the outcomes of the annual customer satisfaction survey;
- the preparation for the annual shareholders' meeting;
- the succession planning for the first management layer below the Management Board;
- the revised Dutch Corporate Governance Code;

Senior employees from the organisation regularly attended meetings of the Supervisory Board to clarify subjects within their specific area of expertise. To keep an ear to the ground and stay in touch with the activities of Alliander, one meeting was combined with a company visit to Allego where we were given presentations about the operational activities and talked with senior management.

Reporting of committees of the Supervisory Board

The Supervisory Board has two committees, namely an Audit Committee and a Selection, Appointment and Remuneration Committee. These committees advise on and prepare the decision-making of the Supervisory Board within their respective areas of expertise. The committee meetings serve to discuss the subjects in greater depth. The main considerations and findings of both committees are fed back in the meeting of the Supervisory Board to enable careful decision-making. The decision-making takes place in the full Supervisory Board meeting. The minutes of the committees are made available to all members of the Supervisory Board.

Audit Committee

In 2016, the Audit Committee met eight times in the presence of the CFO, the Internal Audit Director, the Governance, Risk & Compliance Manager and the external auditor. When specific subjects were discussed, specialists were invited to attend part of the meeting.

The Audit Committee assessed and discussed all relevant financial matters that were presented to the Supervisory Board, including the 2015 annual report and financial statements, the 2016 quarterly and half-yearly figures, the internal and external audit plan, the reports of the internal and external auditor, the 2017 operational year plan, the 2017 investment budget and the 2017-2021 financial plan.

In 2016, the Audit Committee devoted specific attention to information and IT security issues, notably the new zoning infrastructure and accompanying security services to further improve the level of security. A subject that merits even more attention is the safety awareness of employees.

The Audit Committee also discussed the ‘tone at the top’. In the committee's opinion, the correct 'tone at the top' is vital to achieve a strong risk culture. The funding in the form of Green Bonds and the accompanying Green Bonds Framework were also reviewed by the Audit Committee. In addition, the Audit Committee was informed about the implementation of data leak disclosure procedures to comply with the Dutch Data Breach Notification Act, which took effect on 1 January 2016.

Other subjects discussed included the financial effects of the phasing out of the existing gas networks under the current tariff regulation system, the risk reports, the funding policy, the insurance policy, impact measurements, tax issues, impairment testing, position papers, IFRS developments and the business plans of Allego and Alliander Duurzame Gebiedsontwikkeling.

Selection, Appointment and Remuneration Committee

The committee held two meetings in 2016, partly in the presence of the chairman of the Management Board and the HRM Director.

In 2016, the Committee dealt with diverse matters, including the determination of the variable remuneration for 2015 based on the agreed short-term and long-term financial and non-financial targets. The Committee also prepared the Remuneration Report. Furthermore, it was informed about the outcomes of the Internal Audit Department's audit of the Management Board's expense claims. Attention was also given to the succession planning for the first management layer below the Management Board. This discussion was continued in the full Supervisory Board meeting and provided good insight into the management capabilities within Alliander. Developments surrounding the WNT were another subject of lengthy debate.

To fill two vacancies in the Supervisory Board, the Committee prepared the selection and nomination of two new Supervisory Board members in consultation with the Committee of Shareholders and the Central Works Council.

Finally, the Committee conducted individual appraisal interviews with the members of the Management Board as part of the assessment of the Board's performance in 2016.

Internal organisation

Composition of the Management Board

The composition of the Management Board remained unchanged in 2016. 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 2016 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.

	Appointed	Reappointed	End of term	Comments
Ms A. Jorritsma-Lebbink (chairwoman)	2016	n/a	2020	eligible for reappointment
G.L.M. Hamers	2016	n/a	2020	eligible for reappointment
Ms J.G. van der Linde	2009	2013	2017	not eligible for reappointment
B. Roetert	2015	n/a	2019	eligible for reappointment
Ms A.P.M. van der Veer-Vergeer	2009	2012, 2016	2020	not eligible for reappointment

The composition of the Supervisory Board changed in the course of the year under review due to the premature departure of two members: Mr J.C. van Winkelen resigned voluntarily as vice chairman of the Supervisory Board and chairman of the Audit Committee with effect from 7 April 2016 and Mr E.M. d'Hondt resigned - also voluntarily - with effect from 1 July 2016 as chairman of the Supervisory Board and member of the Selection, Appointment and Remuneration Committee. We respect their decisions and thank them for their expert contributions and close involvement with Alliander over many years. The vacancy arising from the resignation of Mr Van Winkelen was filled with the appointment of Mr G.L.M. Hamers. effective from 7 April 2016. From that same date, Ms A.P.M. van der Veer-Vergeer was reappointed by the General Meeting of Shareholders as a member of the Supervisory Board. During the General Meeting of Shareholders of April 2016, no proposal was made to fill the vacancy arising from the resignation of Mr d'Hondt. It was decided to leave this vacancy open for the time being. After working together in the new composition for a period of time, the Supervisory Board would review whether this vacancy needs to be filled. Both the Central Works Council and the Committee of Shareholders were informed accordingly and expressed their agreement with this decision.
Effective from 1 July 2016, Ms A. Jorritsma-Lebbink was appointed as member of the Supervisory Board and also as chairwoman of the Supervisory Board. She was appointed to fill the vacancy arising from the resignation of Ms J.W.E. Spies effective from 15 December 2014.
From 1 July 2016, the Supervisory Board consists of five members who were appointed according to the schedule of resignation.

Profile, competences and diversity

The Supervisory Board has drawn up a profile for its composition. The profile stipulates that all members must meet certain general job requirements, and also defines various specific areas of expertise that must be present in the Supervisory Board to enable effective oversight of the broad spectrum of a network company. Complementarity, collegiate management, independence and diversity are key requirements to ensure the proper fulfilment of the Supervisory Board's duties. Diversity is also important, not just in terms of expertise and background but also gender and age. We are convinced that diversity enhances the decision-making of the Board as a collegiate body.

Women make up 60% of the Supervisory Board membership. This is in line with a balanced distribution of seats (at least 30% male and at least 30% female) as required 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.

Composition of committees

Audit Committee

At the start of the year under review, the Audit Committee consisted of three members: Mr J.C. Van Winkelen (chairman), Ms J.G. van der Linde and Ms A.P.M. van der Veer-Vergeer. The resignation of Mr Van Winkelen led to a change in the composition. The committee is currently made up of Ms Van der Veer-Vergeer (chairwoman), Ms Van der Linde and Mr G.L.M. Hamers. Ms Van der Veer-Vergeer qualifies as the 'financial expert' within the meaning of best practice provision III.3.2 of the Dutch Corporate Governance Code (the Code).

Selection, Appointment and Remuneration Committee

In 2016, the Selection, Appointment and Remuneration Committee initially consisted of Mr B. Roetert (chairman), Mr E.M. d'Hondt and Ms A.P.M. Van der Veer-Vergeer (acting member). The resignation of Mr d'Hondt led to a change in the composition. The committee currently consists of Mr Roetert (chairman) and Ms A. Jorritsma-Lebbink.

Quality assurance and supervision

Self-assessment

This year, the Supervisory Board opted for a short self-assessment without external assistance, the reason being that two of the five members, including the chairwoman, had only been members of the Supervisory Board since mid-2016. In 2017, the self-assessment will once again be carried out with independent external assistance. Among other things, we spoke about our mutual cooperation and the collaboration with the Management Board. The discussion focused on the following three aspects:

- are the competences that are deemed necessary to form a good Supervisory Board sufficiently present?
- are we a good sparring partner for the Management Board?
- is the information provided by the Management Board sufficient to fulfil our role?

We found that the composition of the Supervisory Board is diverse. Not only gender-wise, but also in terms of professional background. The two new members offer entrepreneurial expertise as well as political and management experience in the public sector. This constitutes a valuable addition to the knowledge and competences already present within the Supervisory Board. While the main basic competences are present within the Supervisory Board, further training is required to obtain more insight into the differences between operating in a liberalised market and a largely regulated market. The full Supervisory Board attended courses in IT and cybercrime (see below under 'Education'). We are increasingly a good sparring partner for the Management Board. Issues are dealt with openly and safely in the committees of the Supervisory Board, and the Management Board also discusses strategic themes on which the Supervisory Board does not yet have a fully-formed opinion.

Last year saw a marked improvement in the information provided by the Management Board, but the agenda is overloaded. It was therefore agreed to see whether we could discuss one or two themes in greater depth in each meeting, while relying for the other issues on thorough preparatory work in, for instance, the Audit Committee. Finally, the Supervisory Board is keen to involve the shareholders even more closely in the strategic discussions.

Education
The Supervisory Board has put in place a learning programme that is designed to maintain and broaden the knowledge and expertise of its members. In this context, KPMG gave two IT master classes in 2016. The aim was to provide a deeper understanding of digital trends and developments and the impact of IT on the organisation. Part of the master class consisted of a cyber security game. This gave us first-hand experience of how a cyber attack can impact on an organisation and how you can effectively work together during a cyber attack. Thanks to the excellent mix of theory and practice, these master classes were extremely instructive.

Contacts with the Central Works Council
We attach great value to a good relationship with the Central Works Council. This helps us to stay in touch with the concerns of employees. Supervisory Board The members attended the consultations between the Management Board and the Central Works Council in different compositions. During our customary annual informal meeting, we spoke with the Central Works Council about various issues including the energy transition and long-term employability. We regard the consultation with the Works Council as constructive and valuable.

Adoption of financial statements, dividend proposal and discharge from responsibility
As prescribed by the articles of association, the Supervisory Board puts the financial statements as prepared by the Management Board to the General Meeting of Shareholders for approval. The financial statements were audited by Deloitte Accountants B.V. which issued an unqualified opinion. This statement is included in this annual report under Other information as part of the financial statements. 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.
We recommend that the General Meeting of Shareholders adopt the financial statements for 2016, including the proposed profit appropriation and the dividend proposal for 2016, at the General Meeting of Shareholders to be held on 5 April 2017. Furthermore, we propose that the General Meeting of Shareholders discharge the members of the Management Board and the Supervisory Board from responsibility for their management and supervision, respectively, in the 2016 financial year.

	E.M. d'Hondt [1]	A. Jorritsma-Lebbink [2]	J.C. van Winkelen [3]	G.L.M. Hamers [4]	J.G. van der Linde	B. Roetert	A.P.M. van der Veer-Vergeer [5]
Supervisory Board	5	4	2	4	9	8	9
Audit Committee	n/a	n/a	2	3	8	n/a	8
Selection, Appointment and Remuneration Committee	2		n/a	n/a	n/a	2	2

1. Mr d'Hondt resigned effective from 1 July 2016.
2. Ms Jorritsma-Lebbink was appointed as a member and also as chairwoman of the Supervisory Board effective from 1 July 2016.
3. Mr Van Winkelen resigned effective from 7 April 2016.
4. Mr Hamers was appointed as a member of the Supervisory Board effective from 7 April 2016.
5. Alongside her membership of the Audit Committee, Ms Van der Veer-Vergeer was acting member of the Selection, Appointment and Remuneration Committee until the end of the first quarter 2016 (this in connection with the temporarily reduced staffing of the Selection, Appointment and Remuneration Committee).

Ms M.I.I. Miener, General Counsel, acted as secretary of the Supervisory Board. She left Alliander effective from 1 April 2016; her successor has not yet been appointed. During the rest of the year under review, Ms M.M.A. de Bliek, Manager of the Corporate Secretariat, who is acting secretary, took over her duties. The agendas of the meetings are prepared by the chairwoman of the Supervisory Board in consultation with the chairman of the Management Board.

A final word

We thank the Management Board, the management and the employees of Alliander for their hard work in 2016. Thanks to their commitment, Alliander achieved good results and was able to contribute to a reliable, affordable and accessible energy supply in a large part of the Netherlands.

Arnhem, 6 March 2016

Supervisory Board

Ms A. Jorritsma-Lebbink (chairwoman)
Ms J.G. van der Linde
Mr B. Roetert
Mr G.L.M. Hamers
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 2016. 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 2016 can be found in the notes to the consolidated financial statements.

Remuneration policy for the Management Board

General

The remuneration policy for the Management Board is based on the principle that the remuneration must be in line with market practices and must enable Alliander to recruit and retain qualified and expert Management Board members. In addition, the 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 for senior executives to 100% of a minister's remuneration.

The WNT is applicable to the network operator Liander. Alliander does not fall within the scope of the WNT. In her capacity as a member of the Management Board, Ms I.D. Thijssen 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. The Board finds a 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. 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 member 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 staturoty transitional periods.
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.

Variable remuneration

The partial incorporation of the short-term variable remuneration into the salary [1] will start on 1 January 2017. The maximum short-term variable remuneration - 30% of the annual gross base salary including holiday allowance - will be incorporated up to 70% into the annual gross base salary (excluding holiday allowance). This forms part of the total remuneration and will be reduced on a voluntary basis. The award of long-term variable remuneration was terminated on 1 January 2015 without a transitional period, on the understanding that the 2014-2016 period is the last period for which the long-term variable remuneration will be awarded and paid out. The total remuneration will be reduced in parallel with the statutory transitional periods, bringing the remuneration to 130% of a minister's remuneration in 2020. On the grounds of the above, only the long-term variable remuneration for 2014-2016 remains for 2016. The long-term objectives are related to the long-term interests of Alliander.
After the Supervisory Board has assessed the performance, it establishes the extent to which the members of the Management Board have achieved their objectives. Prior to determining the level of the long-term variable remuneration, the Internal Audit Department verifies the realisation of the objectives.
If less than the agreed minimum level is achieved for an objective, no variable remuneration whatsoever is paid out for that objective. If the agreed maximum level for an objective is exceeded, the score will be capped at the maximum agreed for that objective. 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 Supervisory Board has the discretionary power to claw back paid remuneration. This means that the Supervisory Board has the discretionary power to reclaim any variable remuneration paid to a Management Board member on the basis of incorrect financial or other information. In addition, the Supervisory Board has the discretionary power to reduce or increase the value of any conditional variable remuneration component awarded in a previous financial year if, in its opinion, this leads to unfair outcomes due to extraordinary circumstances in the period in which the pre-determined performance criteria were or should have been realised ('ultimate remedy').

In view of the Supervisory Board's wish not to pay out any further variable remuneration from 2017, it has been decided that the last variable remuneration payment, namely for 2014-2016, took place in December 2016.

Remuneration components

The total remuneration package for the Management Board members for 2016 consists of the following components:

1. annual gross base salary;
2. long-term variable remuneration;
3. pension benefits;
4. social security charges and other benefits.

1. Annual gross base salary

Management Board members receive an annual gross base salary, including holiday allowance. The annual gross base salary is adjusted each year in line with the periodic salary increases for employees, as laid down in the collective labour agreement for network companies. [2]

2. Long-term variable remuneration

The long-term variable remuneration is aimed at achieving objectives over a three-year period. It was decided to bring forward the payment of the last long-term variable remuneration 2014-2016 from April 2017 to December 2016. At that time, no definite figures were known for full-year 2016. For this reason, the realisation of the objectives was assessed on the basis of estimated scores for the objectives as at 31 December 2016. Internal Audit checked and confirmed the reliability of the assumptions and justifications used for the estimates. Furthermore, it was decided that the long-term variable remuneration will not be adjusted, even if it is found at the start of 2017 that the final scores per objective differ from the estimates. The award and payment are final and definite.

3. 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 equal to the permitted maximum under tax rules (€ 101,519 for 2015). This entails that no further pension is accrued over the part of the salary that exceeds € 101.519. In 2015 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 base salary.

4. 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 allowance [3] 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

Terms of appointment

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

Notice period of 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 contracts. [4] 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 2016

1. Annual gross base salary

The Alliander employees covered by the collective labour agreement for network companies received a structural salary increase of 1.5% with effect from 1 January 2016. The same arrangement applied to Messrs Molengraaf and Van Lieshout. In the 2016 calendar year, the base salary of Mr Molengraaf amounted to € 251,760, including 8% holiday allowance. The base salary of Mr Van Lieshout over the same period amounted to €236,648, including 8% holiday allowance, and the base salary of Ms Thijssen amounted to €208,340, including 8% holiday allowance.

2. Long-term variable remuneration

The objectives for the 2014–2016 period remained unchanged compared to the objectives for 2013-2015.

Objectives for and realisation of long-term variable remuneration 2014-2016

	Weighting factor	Realisation 2016 *)
Return on invested capital (ROIC)	25%	0%
Frequency of accidents (LTIF)	25%	100%
Electricity outage duration compared to national average	25%	99%
Socially responsible procurement (SRP)	25%	0%
Total	100%	
Realisation rate		50%

*) 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, the score for this target is limited to a maximum of 110%. For the long-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 2014-2016 for Messrs Molengraaf and Van Lieshout has been set at 50% of 30% of the annual gross base salary. [5]

The Supervisory Board made no use of its discretionary power to adjust the long-term term variable remuneration for 2016. The Supervisory Board also had no cause in 2016 to consider making use of its discretionary power to claw back variable remuneration paid out for previous years.

3. Pension benefits

Pension costs relate to payments of standard pension contributions, which are based on the annual gross pensionable salary, up to the permitted maximum of €101,519 under tax rules. 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 € 18,138, € 17,748 and € 16,933, respectively.

4. Social security charges and other benefits

In 2016, 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 allowance [6] amounted to € 25,798 for Mr Molengraaf, € 25,488 for Mr Van Lieshout and € 11,523 for Ms Thijssen.

Remuneration policy for the Supervisory Board

The remuneration of the Supervisory Board members is fixed and not dependent on the company's results. The remuneration, 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 yearly 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 the Liander network operator. 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. Due to a reappointment in the Supervisory Board, the transitional arrangement was discontinued in the course of 2016.

An overview of the total remuneration awarded to the members of the Supervisory Board for 2016 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 operator Liander N.V., which is 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 annual report of the network operator, which is to be published in the second quarter of 2017, will contain disclosures on the WNT requirements.

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 The long-term variable remuneration 2014-2016 was paid out in December 2016. At that time, no definite figures were known for full-year 2016. For this reason, the realisation of the objectives was assessed on the basis of estimated scores for the objectives as at 31 December 2016. Internal Audit checked and confirmed the reliability of the assumptions and justifications used for the estimates. If it is found at the start of 2017 that the final scores per objective differ from the estimates, the long-term variable remuneration will not be adjusted. The award and payment are final and definite.
6 An expense allowance is not applicable to Ms Thijssen.

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Consolidated financial statements

Consolidated balance sheet

€ million	Note	2016		2015	
Assets					
Non-current assets					
Property, plant and equipment	3	6,529		5,899	
Intangible assets	4	319		280	
Investments in associates and joint ventures	5	9		9	
Available-for-sale financial assets	6	224		229	
Other financial assets	7	38		42	
Deferred tax assets	17	216		248	
			7,335		6,707
Current assets					
Inventories	9	64		54	
Trade and other receivables	10	273		238	
Other financial assets	6, 7	15		25	
Cash and cash equivalents	11	48		89	
			400		406
Assets held for sale	33		-		613
Total assets			7,735		7,726
Equity and liabilities					
Equity	12				
Share capital		684		684	
Share premium		671		671	
Subordinated perpetual bond		496		496	
Revaluation reserve		46		53	
Other reserves		1,685		1,548	
Result for the period		282		235	
Total equity			3,864		3,687
Liabilities					
Non-current liabilities					
Interest-bearing debt	13	1,483		1,197	
Finance lease liabilities	19	168		162	
Deferred income	14	1,597		1,559	
Provisions for employee benefits	15	50		49	
Deferred tax liabilities	17	5		-	
Other provisions	16	5		3	
			3,308		2,970
Short-term liabilities					
Trade and other payables	18	122		133	
Tax liabilities		63		101	
Interest-bearing debt	13	81		471	
Provisions for employee benefits	15	46		53	
Accruals		251		216	
			563		974
Liabilities held for sale			-		95
Total liabilities			3,871		4,039
Equity and liabilities			7,735		7,726

Consolidated income statement

€ million	Note	2016		2015	
Revenue[1]	21	1,584		1,540	
Other Income[1]	22	139		140	
Total income			1,723		1,680
Operating expenses					
Purchase costs and costs of subcontracted work	23	-402		-400	
Employee benefit expenses	24	-462		-444	
External personnel expenses	24	-123		-125	
Other operating expenses	25	-333		-208	
Total purchase costs, costs of subcontracted work and operating expenses		-1,320		-1,177	
Depreciation and impairment of property, plant and equipment	26	-395		-338	
Less: Own work capitalised		199		174	
Total operating expenses			-1,516		-1,341
Operating profit			207		339
Finance income	27		18		54
Finance expense	28		-72		-125
Result from associates and joint ventures	5		-5		-4
Profit before tax			148		264
Tax	29		-42		-67
Profit after tax from continuing operations			106		197
Profit after tax from discontinued operations	33		176		38
Profit after tax			282		235

1 The figures for 2015 have been restated for comparison purposes.

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

Consolidated statement of comprehensive income

The comprehensive income was as follows:

€ million	2016	2015
Profit after tax	282	235
Other elements of comprehensive income		
Items that will be reclassified subsequently to profit or loss		
Revaluation of available-for-sale financial assets	-9	15
Movement in fair value cash flow hedges	-	-
Tax	2	-4
Comprehensive income after tax	275	246

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

Consolidated cash flow statement

€ million	Note	2016		2015	
Cash flow from operating activities	30				
Profit after tax			282		235
Adjustments for:					
- Finance income and expense	27, 28		54		71
- Tax	29		42		80
- Results from associates and joint ventures	5		5		4
- Depreciation, impairment and amortisation	22, 26		329		282
- Release of provision CDS after tax	8		-		-49
Book profit sale Endinet	33		-176		-
Changes in working capital:					
- Inventories		-7		-17	
- Trade and other receivables		10		6	
- Trade and other payables and accruals		20		51	
Total changes in working capital			23		40
Changes in deferred tax, provisions, derivatives and other			-32		-26
Cash flow from operations			527		637
Interest paid		-65		-65	
Interest received		2		2	
Corporate income tax paid (received)		-88		-61	
Total			-151		-124
Cash flow from operating activities			376		513
Cash flow from investing activities	30				
Investments in property, plant and equipment	3	-680		-575	
Construction contributions received	14	99		85	
Investments and divestments in financial assets (associates and joint ventures)		-5		-2	
Cash flow from the reparcelling operation		359		-	
Cash flow from the acquisition of 450connect GmbH		-5		-	
Cash flow from investing activities			-232		-492
Cash flow from financing activities	30				
Redemption EMTN		-100		-	
ECP financing issued (redemption)		29		-112	
Long-term debt issued (redemption)		-27		4	
(Redemption) loans granted		4		9	
Received (granted) current deposits		10		-	
Redemption available-for-sale investments	6	-		141	
Reimbursement subordinated perpetual bond	12	-16		-16	
Dividend paid		-85		-125	
Cash flow from financing activities			-185		-99
Net cash flow			-41		-78
Cash and cash equivalents as at 1 January			89		167
Net cash flow			-41		-78
Cash and cash equivalents as at 31 December			48		89

Reconciliation of net cash flow 2015

The cash flow statement for 2015 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 as 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

	Equity attributable to shareholders and other providers of equity						
€ million	Share capital	Share premium	Subordinated perpetual bond	Revaluation reserve	Other reserves	Profit for the year	Total
As at 1 January 2015	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
Revaluation of available-for-sale financial assets	-	-	-	-7	-	-	-7
Profit after tax for 2016	-	-	-	-	-	282	282
Comprehensive income for 2016	-	-	-	-7	-	282	275
Other[1]	-	-	-	-	-1	-	-1
Reimbursement subordinated perpetual bond after tax	-	-	-	-	-12	-	-12
Dividend for 2015	-	-	-	-	-	-85	-85
Profit appropriation for 2015	-	-	-	-	150	-150	-
As at 31 December 2016	684	671	496	46	1,685	282	3,864

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

Notes to the consolidated financial statements

Accounting policies

The 2016 financial statements were signed by the members of the Management Board and the members of the Supervisory Board on 6 March 2017. The Supervisory Board will submit the financial statements for adoption by the General Meeting of Shareholders on 5 April 2017.

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

The Alliander group

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

The subsidiary Liander owns and manages the regional gas and electricity networks in the provinces of Gelderland, Friesland, Noord-Holland, Flevoland and the Noordoostpolder and parts of Zuid-Holland. Under the Electricity Act 1998 and the Gas Act the management of the networks and regional distribution of energy are the exclusive responsibility of the network operator. Liandon provides services relating to the construction and maintenance of complex energy infrastructures. Alliander AG carries on network operation and public lighting activities in Germany. The subsidiary Stam is a medium-sized firm of contractors based in Noord-Holland, engaging in network construction and maintenance work. The activities of Alliander Telecom N.V. and the joint operation CDMA Utilities B.V. concern the group's data communications. Through its subsidiaries, including Allego, Alliander Duurzame Gebiedsontwikkeling, Smart Connections, 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 sale and purchase agreement (SPA) to purchase the Enexis networks in Friesland and the Noordoostpolder (Aktivabedrijf Enexis Friesland B.V., hereafter AEF B.V.) on 1 January 2016 and at the same time sell the networks in the Eindhoven and Zuidoost-Brabant region (Endinet Groep B.V.) was signed on 27 July 2015. The transaction involved Alliander selling the shares of Endinet Groep B.V. to Enexis and buying the shares of AEF B.V. from Enexis with an additional payment by Enexis of €365 million. 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 are surrounded by 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.

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.

Endinet was sold on 1 January 2016. Alliander's income statement for 2016 recognises the book profit on Endinet as a profit from discontinued operations. AEF was integrated immediately upon acquisition in the network operator Liander. Since that date, therefore, AEF B.V.'s revenue, costs and balance sheet items have been recognised in Liander. Alliander's income statement for continuing operations, therefore, includes AEF B.V. and excludes Endinet (2015: excludes Endinet and AEF B.V.).

The corresponding detailed disclosure required by IFRS 3 has been included in note [1] and note [33].

Purchase of shares of 450connect GmbH

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

The purchase price amounts to €18 million, made up of a payment of €5 million and a contingent consideration of €13 million, allocated as net assets of €15 million and €3 million in goodwill. For more detailed disclosures see also note [1] to the financial statements.

Non-controlling interests

There are third-party non-controlling interests in Alliander's activities. This concerns a 5% interest on the part of the Municipality of Nijmegen in Indigo B.V., and a 5% interest on part of the Municipality of Hengelo in Warmtenetwerk Hengelo B.V., both subsidiaries 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 2016, as adopted by the European Union (EU), and the provisions of Title 9, Book 2 BW. IFRS consists of the IFRS standards as well as the International Accounting Standards issued by the International Accounting Standards Board (IASB) and the interpretations of IFRS and IAS standards issued by the IFRS Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), respectively.

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

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

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

New and/or amended IFRS standards applicable in 2016

The IASB and the IFRIC have issued new and/or amended standards and interpretations which are applicable to Alliander with effect from the 2016 financial year. The standards and interpretations below have been endorsed by the European Union.

The amendment IFRS 11 dealing with 'Accounting for Acquisitions of Interests in Joint Operations' provides the specific guidance that, in the case of the acquisition of an interest in a joint operation, IFRS 3 Business Combinations applies if the joint operation is a business.

The amendments to IAS 16 and IAS 38 dealing with 'Clarification of Acceptable Methods of Depreciation and Amortisation' restate the existing rules relating to methods of depreciation and amortisation, annual review thereof and changes to the method used as a result. An important element is that the standard now explicitly prohibits the use of revenue-based methods.

The amendments to IAS 16 and IAS 41 dealing with 'Agriculture: Bearer Plants' make a distinction between accounting for bearer plants (IAS 16) and accounting for agricultural produce from bearer plants at the time of harvest (IAS 41).

The amendment to IAS 27 dealing with 'Equity Method in Separate Financial Statements' permits the use of the equity method for the separate financial statements under IFRS.

The 'Disclosure Initiative' (Amendments to IAS 1) gives guidance on the principle of materiality in IAS 1 Presentation of Financial Statements aimed at removing misunderstandings in relation to materiality and encouraging disclosures appropriate to the users of the information. New guidance is that an entity does not have to disclose information required by a specific IFRS if that information is not material. Also, the summary of the main accounting policies should be restricted to disclosing the more important policies applied.

The amendments to IFRS 10, IFRS 12 and IFRS 28 dealing with 'Investment Entities: Applying the Consolidation Exception' give further guidance on accounting for investment entities.

The above amendments do not affect the financial statements. In addition to these amendments, the 'Annual Improvements to the International Financial Reporting Standards 2012–2014 Cycle' resulted in corrections and minor amendments to a number of IFRS standards applicable to annual periods commencing on or after 1 January 2016. 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. In 2015, an implementation programme was initiated to assess contracts, services and supplies in terms of the new standard, to identify any changes in measurement and recognition and in required disclosures and to ascertain the impact this would have on the accounting and other systems. Considerable progress has already been made with phase 1 of the implementation process and confirms the expectation that the impact is minimal for the regulated activities and for the activities in the deregulated domain as regards both measurement of assets and liabilities and income recognition. Some changes to the accounting systems will, however, be required in order to meet the more extensive disclosure requirements.

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. This will be mainly of a procedural nature and, as things stand, there will not be any material financial impact.

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. As disclosed in note [19], the existing operating lease obligations as at year-end 2016 amount €81 million, a substantial part of which will be recognised as lease assets (rights of use) and lease liabilities (rental obligations) on the face of the balance sheet under the new standard. The new standard does not affect the way in which the cross-border leases are accounted for, however.

The other future amendments to standards and interpretations that have been published are either not relevant to Alliander or do not have any material impact on Alliander and are therefore not considered in greater detail in these financial statements.

Basis of the consolidation

Subsidiaries

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

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

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

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

Associates and joint arrangements

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

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

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

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

The end of the chapter 'Notes tot the company financial statements' in 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

2016

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

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

2015

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

Segment reporting

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

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

- Network operator Liander
- Other

Until 2015, Endinet was reported as a separate segment and the segments were:

- Network operator Liander
- Network company Endinet
- Other

Foreign currency translation

Functional and presentation currency

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

Translation of transactions and balance sheet items in foreign currencies

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

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

Impairments

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

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

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

The cash-generating unit Endinet ceased to be included in 2016, following the sale of Endinet. 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.

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

2016

The existing traditional meters used by retail customers will be replaced in an accelerated manner over the next few years through the large-scale installation of smart meters. The depreciation of meters due for replacement will be accelerated to 2020, leading to the depreciation charge being higher by €3.1 million each year compared with 2015.

2015

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

Intangible assets

Goodwill

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

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

Other

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

Financial assets

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

Loans and receivables

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

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

Available-for-sale financial assets

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

Derivatives and hedge accounting

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

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

Accounting for movements in fair value of derivatives

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

Commodity contracts intended for use by the company

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

Hedge accounting

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

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

a forecast transaction is no longer expected to occur, the accumulated fair value movements that were recognised in equity are recognised through the income statement.

Other derivatives

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

Leases where Alliander acts as lessor

Operating leases

Alliander has entered into operating leases for district heating networks, 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. Due to the usually short term of these receivables the fair value and amortised cost are generally equal to the face value. Impairment losses are recognised through the income statement when it can be determined objectively that an amount is not collectible.

Cash and cash equivalents

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

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

Interest-bearing debt

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

Leases where Alliander acts as lessee

Finance leases

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

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

Operating leases

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

Construction contributions, government and investment grants

Construction contributions

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

Government subsidies and investment grants

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

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

Tax

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

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

Provisions for employee benefits

Multi-employer plans

Alliander has a number of defined benefit plans and defined contribution plans for which contributions are generally paid to pension funds or insurance companies. The main pension schemes, which are administered by ABP, take the form of multi-employer plans. Although the pension plans offered by these arrangements are, in fact, defined benefit plans, these plans are treated as defined contribution plans as Alliander does not have access to the required information and its participation in the multi-employer plans exposes it to actuarial risks that relate to the present and former employees of other entities. The pension contributions due for the financial year are accounted for as pension costs in the financial statements. Where there is 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 and the remainder is for account of the employees. The same applies to the pensions administered by BPF Bouw and Pensioenfonds voor Metaal en Techniek, which are not of material significance.

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 renogotiated 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

2016
Acquisition of AEF B.V. and 450connect GmbH

€ million	AEF B.V. Fair value as at 1 January 2016	450connect GmbH Fair value as at 31 May 2016	Total
Assets			
Property, plant and equipment: networks, connections and smart meters	340	-	340
Other property, plant and equipment	3	1	4
Intangible assets	3	26	29
Total assets	346	27	373
Interest-bearing debt	-	6	6
Deferred tax liabilities	19	6	25
Provisions	1	-	1
Total liabilities	20	12	32
Net assets acquired	326	15	341
Purchase price			
Cash	335	5	340
Contingent liabilities	-	13	13
Total purchase price	335	18	353
Less: net assets acquired	326	15	341
Goodwill	9	3	12

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

The sale and purchase agreement (SPA) to purchase the Enexis networks in Friesland and the Noordoostpolder (Aktivabedrijf Enexis Friesland B.V., hereafter AEF B.V.) on 1 January 2016 and at the same time sell the networks in the Eindhoven and Zuidoost-Brabant region (Endinet Groep B.V.) was signed on 27 July 2015. The transaction involved Alliander selling the shares of Endinet Groep B.V. to Enexis and buying the shares of AEF B.V. from Enexis with an additional payment by Enexis of €365 million. 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 are surrounded by 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 has included the company in the Alliander consolidation with effect from that 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.

The net amount received as presented in the cash flow statement is €359 million, made up of €694 million for Endinet and €335 million paid for AEF B.V. Details of the Endinet sale are disclosed in note [33].

Purchase of shares of AEF B.V.

The final purchase price for AEF B.V. was established at fair value at €335 million based on its figures for 2015 and including settlements. This fair value was established on the basis of cash flows for the medium and long term, regulatory developments, outperformance effects and synergy gains. The allocation of the purchase price is disclosed above.

The networks in Friesland/Noordoostpolder were immediately integrated in Liander by merging Liander and AEF B.V.

Net assets acquired (€326 million)

The property, plant and equipment acquired with AEF B.V. relate to distribution networks, connections, meters and network-related buildings valued at €340 million and other property, plant and equipment amounting to €3 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 related to the 125 staff taken over from Enexis.

Goodwill (€9 million)

The goodwill of €9 million is largely related to the provision for deferred tax liabilities. It is not tax-deductible.

Other

The total costs associated with the acquisition of AEF B.V. amounted to €2.7 million. An amount of €0.7 million of these costs was recognised in the income statement for 2015 and the remainder is accounted for in 2016. The estimated revenue of AEF B.V. for 2016 is €64 million and the operating profit over the same period is put at €26 million.

Purchase of 450connect GmbH

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

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

The allocation of the purchase price is disclosed above.

Notes

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

Net assets acquired

The non-current assets acquired largely relate to the licence for the CDMA 450 network. The interest-bearing liabilities concern loans from Inquam's former shareholders. These loans were repaid on 3 June 2016. The deferred tax liability relates to the difference between the reported carrying amount of the licence and the related tax base. The recognised amount includes €2 million in respect of tax loss carryforwards.

Goodwill

The goodwill of €3 million is largely related to the provision for deferred tax liabilities. It is not expected that this goodwill will be deductible for corporate income tax purposes.

Other

The total costs associated with the acquisition of Inquam (€0.5 million) were expensed in the 2016 income statement of Alliander AG. Inquam's revenue over the period 1 June 2016 to 31 December 2016 amounted to €0.3 million, with an operating loss over this period of €2.4 million. If 450connect had been taken over with effect from 1 January 2016, Alliander's revenue would have amounted to €1.6 billion, with a net profit of €282 million.

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 purchase price was allocated in its entirety to the acquired assets. The concession runs for 20 years (up to 8 February 2035).

Note 2 Segment information

Segments

Alliander distinguishes the following reporting segments in 2016:

- Network operator Liander;
- Other.

This segmentation reflects the internal reporting structure, specifically the internal consolidated and segmented monthly reports, the annual plan and the business plan. The sale of Endinet, effective 1 January 2016, meant that Endinet ceased to be part of the internal reporting structure in 2016. Endinet was included in Alliander's internal reporting structure up to 31 December 2015.

Network operator Liander forms the largest company within the Alliander group and is responsible for providing gas and electricity connections and for distributing gas and electricity in Gelderland and parts of Noord-Holland, Flevoland, Friesland and Zuid-Holland and is with over 92% of the revenue the largest business unit of Alliander.

The Other segment covers the entirety of the other operating segments within the Alliander group, such as the activities of Liandon, Stam and Alliander AG, new activities, the corporate staff departments and the service units. Liandon provides services relating to the construction and maintenance of complex energy infrastructures, on behalf of Liander as well as third parties. Alliander AG carries on network operation and public lighting activities in Germany. Stam is a medium-sized firm of contractors based in Noord- Holland, engaging in network construction and maintenance work. These activities are undertaken on behalf of third parties as well as on contract to Liander. Established as well as new activities include targeted investments in the infrastructure for electric vehicles, sustainable area development and sustainable housing. The corporate staff departments and service units include Shared Services and IT, which perform activities on behalf of whole Alliander based on Service Level Agreements (SLA's). 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. Changes in the accounting setup in 2016 mean that the figures for costs of energy, raw materials and consumables and for capitalised production for 2016 and 2015 are not comparable.

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

Notes

General

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

Primary Segmentation

€ million	Network operator Liander		Network company Endinet		Other		Eliminations		Total		Reclassification to reported, incidental items and IFRS 5		Reported	
Income statement	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Operating income														
External revenue	1,582	1,567	-	101	141	112	-	-	1,723	1,780	-	-100	1,723	1,680
Internal revenue	3	6	-	-	331	329	-334	-337	-	-	-	-	-	-
Total income	1,585	1,573	-	101	472	441	-334	-337	1,723	1,780	-	-100	1,723	1,680
Operating expenses														
Purchase costs and costs of subcontracted work	432	704	-	14	67	180	-97	-77	402	821	-	-421	402	400
Operating expenses	682	554	-	36	452	404	-237	-259	897	735	21	42	918	777
Depreciation and impairments	303	268	-	39	79	70	-	-	382	377	13	-39	395	338
Own work capitalised	-140	-308	-	-6	-59	-163	-	-	-199	-477	-	303	-199	-174
Total operating expenses	1,277	1,218	-	83	539	491	-334	-336	1,482	1,456	34	-115	1,516	1,341
Operating profit	308	355	-	18	-67	-50	-	1	241	324	-34	15	207	339
Finance income	11	12	-	-	126	123	-119	-81	18	54	-	-	18	54
Finance expense	-126	-115	-	-9	-65	-77	119	81	-72	-120	-	-5	-72	-125
Share in results of associates and joint ventures after tax	2	1	-	-	-7	-4	-	-1	-5	-4	-	-	-5	-4
Tax	-48	-62	-	-2	-2	-	-	-1	-50	-65	8	-2	-42	-67
Profit after tax from continuing operations	147	191	-	7	-15	-9	-	-	132	189	-26	8	106	197
Segment assets and liabilities														
Total assets	6,985	6,448	-	508	2,386	2,609	-1,636	-1,907	7,735	7,658	-	68	7,735	7,726
Non-consolidated investments in associates	-	-	-	-	6	8	-	-	6	8	-	-	6	8
Non-consolidated investments in joint ventures	3	1	-	-	-	-	-	-	3	1	-	-	3	1
Liabilities (non-current and current)	5,216	4,588	-	232	1,858	1,993	-3,203	-2,821	3,871	3,992	-	48	3,871	4,040
Other segment items														
Investments in property, plant and equipment	551	429	-	29	129	117	-	-	680	575	-	-	680	575
Number of permanent staff at end of year	3,024	3,082	-	265	2,659	2,477	-	-	5,682	5,824	-	-265	5,682	5,559

The profit after tax for 2016, like that for 2015, is almost entirely attributable to the shareholders of Alliander N.V..

Reclassification to reported and incidental items

In 2016 there are some incidental items in the column headed 'Reclassification to reported, incidental items and IFRS 5'. Of the incidental item under operating expenses, €10 million (2015: €17 million) is accounted for by project and integration costs connected with the exchange of the energy distribution networks of Enexis in Friesland and the Noordoostpolder for those of Alliander in the Eindhoven and Zuidoost-Brabant region (Endinet) with effect from 1 January 2016. Of the remainder of the incidental item in purchase costs, costs of subcontracted work and operating expenses, €11 million (2015: €12 million) was related to costs associated with organisational changes.

The incidental expense of €13 million (2015: nil) in the depreciation and impairments stems from the annual impairment triggering event analysis process and associated impairment calculations and concerns accelerated depreciation of transformers, part of the network in Germany, unoccupied buildings and part of the CDMA network.

The reclassification affecting reported and incidental items concerns the reconciliation of the periodical management reports with the published financial reports in 2015. For external reporting, the amount of capitalised own production of €303 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, for 2015, 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

	External revenue		Property, plant and equipment		Intangible assets		Non-consolidated associates and joint ventures	
€ million	2016	2015	2016	2015	2016	2015	2016	2015
The Netherlands	1,686	1,643	6,473	5,850	291	279	10	9
Rest of the world	37	37	56	49	28	1	-	-
Total	1,723	1,680	6,529	5,899	319	280	10	9

'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 2015					
Historical cost	247	9,447	1,383	319	11,396
Accumulated depreciation and impairments	-126	-4,185	-867	-	-5,178
Carrying amount as at 1 January 2015	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 movements	51	82	100	-239	-6
Reclassification 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
Movements 2016					
Investments	-	342	173	165	680
Divestments	-	-14	-15	-3	-32
Depreciation	-9	-238	-109	-1	-357
Impairments	-	-5	-	-	-5
New consolidations	-	328	14	2	344
Reclassifications and other movements	9	64	51	-124	-
Total	-	477	114	39	630
As at 31 December 2016					
Historical cost	244	9,886	1,637	219	11,986
Accumulated depreciation and impairments	-93	-4,436	-928	-	-5,457
Carrying amount as at 31 December 2016	151	5,450	709	219	6,529

Investments

Capital expenditure on property, plant and equipment totalled €680 million (2015: €551 million).

Divestments

Divestment in 2015 and 2016 related to decommissioning of network assets and other plant and equipment and sales of buildings and land.

New consolidations

The Enexis networks in Friesland and the Noordoostpolder were purchased from Enexis with effect from 1 January 2016. See disclosures in note [1].

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).

Impairment

In 2016, the networks in Germany were written down to a lower value. For further disclosures, see note [4]. There were no impairment losses in 2015.

Reclassification to assets held for sale

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

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 2016. The three transactions as at balance sheet date relate to gas networks in Friesland, Gelderland, Flevoland,Noord-Holland and Utrecht, 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 2016 was approximately €560 million (year-end 2015: €550 million). At the end of 2016, a total of $2,733 million (2015: $2,635 million) was held on deposit with several financial institutions or invested in securities in connection with these transactions.

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

At the end of 2016, 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 $194 million (2015: $180 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. (now Liander Infra N.V.) that had been covered by a cross-border lease were subleased in mid-2008 to N.V. Nuon Warmte, part of N.V. Nuon Energy. These operating leases have a term of 12.5 years (term runs to 31 December 2020). The total carrying amount of the subleased heating networks and associated meters as at 31 December 2016 was €95 million (2015: €102 million).

Note 4 Intangible assets

€ million	Goodwill	Other intangible assets	Total
As at 1 January 2015			
Historical cost	501	11	512
Accumulated depreciation and impairments	-187	-3	-190
Carrying amount as at 1 January 2015	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 depreciation and impairments	-187	-2	-189
Carrying amount as at 31 December 2015	278	2	280
Movements 2016			
Investments	12	-	12
New consolidations	-	29	29
Depreciation	-	-1	-1
Impairments	-1	-	-1
Total	11	28	39
As at 31 December 2016			
Historical cost	477	33	510
Accumulated depreciation and impairments	-188	-3	-191
Carrying amount as at 31 December 2016	289	30	319

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

The new consolidations concern the intangible assets acquired, carried on the balance sheets of AEF B.V. (€3 million) and 450connect (€26 million). The intangible assets of AEF B.V. consist of installation leases. The remaining amortisation period is 16 years. In the case of 450connect, the intangible assets are two licences relating to the 450 MHz frequency bands. These licences will be amortised over 20 years. Amortisation amounting to €1 million was recognised on this balance sheet item in 2016.

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

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

Goodwill allocation by segment

€ million	2016	2015
Liander	286	277
Other	3	1
Total	289	278

Of the total amount of goodwill allocated to Liander as at year-end 2016, €209 million (2015: €209 million) relates to electricity and gas networks and dates from the contribution of the networks when n.v. Nuon was created in 1999. Of the remainder, amounting to €77 million (2015: €68 million), €61 million relates to the purchase of Endinet in 2010, €7 million to Stam and €9 million to the aforementioned purchase of AEF B.V. in 2016.

The goodwill shown in Other in 2016 was up by €2 million. The increase is the net amount of the investment relating to 450connect (€3 million) and the impairment loss on the electricity and gas networks in Heinsberg (€1 million).

At year-end 2016, 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 2016 reporting period, Liander used a pre-tax discount rate of 5.6% (2015: 5.6%). From 2017 onwards, the figure will drop to 4.5% up to 2021, these rates being 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% in 2016 (2015: 7.0%). For 2017, the figure is 7%, for 2018 it is 6.18% and, over the period 2019–2022, the rate is 5.2%. Otherwise the underlying assumptions were the same as for Liander.

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

There were no impairment losses in 2015.

Note 5 Investments in associates and joint ventures

	Associates		Joint ventures		Total	
€ million	2016	2015	2016	2015	2016	2015
Carrying amount as at 1 January	8	9	1	2	9	11
Movements						
Investments	5	3	-	-	5	3
Share in results	-4	-5	2	1	-2	-4
Impairments	-3	-1	-	-	-3	-1
Dividend and other movements	-	2	-	-2	-	-
Total	-2	-1	2	-1	-	-2
Carrying amount as at 31 December	6	8	3	1	9	9

Alliander increased the capital invested in existing associates (Locamation and The New Motion) by €5 million.

The impairments in 2016 relate to a non-controlling interest. In the preceding year, impairments also related to a non-controlling interest, as well as to the termination of the interest held by Alliander Participaties B.V. in Green-A-Tec B.V. on 4 December 2015.

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

Share in results of associates and joint ventures

	Associates		Joint ventures		Total result	
€ million	2016	2015	2016	2015	2016	2015
Share in						
Profit or loss from continued activities	-7	-5	2	1	-5	-4
Profit or loss from discontinued activities	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-7	-5	2	1	-5	-4

Alliander has concluded arrangements with associates and joint ventures for granting finance and credit facilities totalling €39 million as at year-end 2016 (2015: €32 million). Under these facilities, an amount of €19 million was drawn down as at 31 December 2016 (2015: €24 million). The arrangements include convertible loans of €7 million (2015: €9 million). The unrecognised share of losses in 2016 amounts €0.4 million for exclusively joint ventures (accumulated €4 million).

The finance also extends to current-account liabilities of €9 million as at year-end 2016 (2015: €16 million). The loans and accrued interest and repayments in the case of one of the entities concerned have been written off. The pledge obtained on a loan granted in 2014 was increased to €2 million in 2016 (2015: €1.6 million).

Note 6 Available-for-sale financial assets

€ million	
Carrying amount as at 1 January 2015	359
Movements 2015	
Currency translation differences	28
Fair value movements	15
Termination of financial asset on maturity	-173
Total	-130
Carrying amount as at 31 December 2015	229
Movements 2016	
Currency translation differences	5
Fair value movements	-10
Total	-5
Carrying amount as at 31 December 2016	224

Available-for-sale financial assets as at year-end 2016 comprises investments in a debt instrument issued by a large financial institution which serves to cover obligations arising from two cross-border lease contracts (2015: €229 million). The carrying amount of the related lease obligations was €168 million at year-end 2016 (2015: €162 million).

Note 7 Other financial assets (including current portion)

€ million	Loans, receivables and other
Carrying amount as at 1 January 2015	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
Effective interest rate 2016	1%
Movements 2016	
Loans granted	332
Loans and interest repaid	-344
Writedown on loan to associate	-2
Total	-14
Carrying amount as at 31 December 2016	53
Non-current portion of other financial assets	38
Current portion of other financial assets	15

The loans granted and repaid in 2015 and 2016 were mainly in the form of short-term deposits. At the end of 2016, in the same way as the previous year, the carrying amount of the other financial assets (€53 million) comprised receivables, loans and capitalised costs denominated in euros, including a long-term receivable of €18 million from the City of Amsterdam relating to the Spaklerweg site and €15 million in short-term deposits.

Note 8 Derivatives

Derivatives are measured at fair value. As at year-end 2016 and 2015, there were no derivative instruments on the balance sheet.

In 2016, a bond was issued under the Euro Medium Term Notes Programme. The fixed-rate bond loan was converted into a floating-rate loan using an interest rate swap. The interest rate swap was settled simultaneously with the issue of the bond loan, yielding a profit that has been recognised in the finance income.

Financing was raised in 2016 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.

Note 9 Inventories

€ million	2016	2015
Raw materials and consumables	50	44
Finished goods	14	10
Carrying amount as at 31 December	64	54

The impairment of inventories in 2016 was almost nil (2015: €5 million).

Note 10 Trade and other receivables

€ million	2016	2015
Trade receivables	65	61
Impairments of trade receivables	-12	-9
Trade receivables net	53	52
Corporate income tax	31	-
Other receivables	29	32
Accrued income and prepayments	160	154
Carrying amount as at 31 December	273	238

At the end of 2016, impairment of trade receivables totalled €12 million (2015: €9 million). The impairment loss on trade receivables recognised in the income statement in 2016 amounted to €4 million (2015: €1 million). For further information, see the credit risk section of note [34]. The other receivables include an amount of €6 million (2015: €13 million) owed by the joint venture Reddyn.

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

So far, no agreement has been reached with the Dutch Tax & Customs Administration concerning the tax treatment of this loan. In the ongoing appeal proceedings, the District Court at Arnhem upheld Alliander's appeal in a ruling dated 20 December 2016. The Dutch Tax & Customs Administration has indicated its intention to appeal the decision before the Court of Justice.

In 2016, Alliander settled the corporate income tax assessments for the years 2010–2013. These assessments did not make allowance for the aforementioned deductible interest expense. Based on the advice of external consultants, the Management Board decided to recognise a receivable in respect of the disputed corporate income tax paid in 2016. A similar question hangs over the withholding tax payable on dividends. No withholding tax assessments (final or provisional) have been paid. Again, having consulted outside experts, the Management Board decided not to recognise a provision in this respect.

The total maximum exposure for Alliander is between €20 million and €30 million.

Note 11 Cash and cash equivalents

€ million	2016	2015
Cash held at banks	11	15
Deposits	37	74
Carrying amount as at 31 December	48	89

The effective interest rate on cash and cash equivalents ranged from -0.62% to 0.0% (2015: -0.20% to 0.17%). Cash and cash equivalents are held almost entirely in euros. In 2016, there were no amounts of cash and deposits which were not at the unrestricted disposal of Alliander (2015: 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 2016, 136,794,964 shares were in issue (2015: 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 2016, after deduction of deferred tax, was €0.5 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 available-for-sale financial assets. The decrease of €7 million in the revaluation reserve in 2016 is accounted for by the decrease in value of the available-for-sale financial assets.

Other

The other reserve includes an amount of €1.4 million after tax (2015: €0.9 million) 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, the 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. In 2016, Alliander acquired a 95% interest in Warmtenet Hengelo B.V., a company which is developing a district heating system. The shareholders' equity of this company as at year-end 2016 amounted to €0.2 million. However, the amount of these non-controlling interests (together €0.2 million), means that they are not visibly accounted for on the face of the balance sheet as at year-end 2016 .

Note 13 Interest-bearing debt

€ million	2016	2015
Carrying amount as at 1 January	1,668	1,775
Movements		
New loans	843	481
Loans repaid	-941	-590
Currency translation differences and other movements	-6	2
Total	-104	-107
Carrying amount as at 31 December	**1,564**	**1,668**

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

Short and long-term interest-bearing debt

	Effective interest rate		Current portion		Non-current portion	
€ million	2016	2015	2016	2015	2016	2015
Subordinated loans	8.6%	8.6%	5	5	76	82
Private and green loans	1.1%	2.1%	1	20	12	13
Euro Medium Term Notes	2.6%	3.7%	-	400	1,394	1,095
Euro Commercial Paper	0.0%	0.4%	75	46	-	-
Other	0.0%	0.0%	-	-	1	7
Carrying amount as at 31 December			81	471	1,483	1,197

Short-term interest-bearing debt, amounting to €81 million as at year-end 2016 (2015: €471 million), is made up of the current portion of the long-term debt and the Euro Commercial Paper.

As at year-end 2016, a carrying amount of €1,394 million (face value €1,400 million) had been issued under the EMTN programme. The notes issued under the EMTN programme are listed on the Amsterdam and Luxembourg stock exchanges. At the end of 2016, €75 million in short-term finance had been raised under the ECP programme (2015: €46 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	2016	2015
Less than 1 year	81	471
Between 1 and 2 years	6	6
Between 2 and 3 years	306	6
Between 3 and 4 years	7	306
Between 4 and 5 years	8	7
Over 5 years	1,157	872
Carrying amount as at 31 December	1,565	1,668

Note 14 Deferred income

€ million	2016	2015
Carrying amount as at 1 January	1,559	1,572
Contributions received	99	85
Amortisation recognised as income	-66	-64
Reclassification to liabilities held for sale	-	-34
Reclassification	5	-
Carrying amount as at 31 December	1,597	1,559

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 in 2015 relates to the carrying amount of Endinet as at 24 March 2015.

Note 15 Provisions for employee benefits

	Current portion		Non-current portion		Total	
€ million	2016	2015	2016	2015	2016	2015
Long-term employee benefits						
Post-employment benefits	-	-	2	1	2	1
Other long-term employee benefits	9	10	42	41	51	51
Termination/reorganisation benefits	12	11	6	7	18	18
Total	21	21	50	49	71	70
Short-term employee benefits						
Short-term employee benefits	25	32	-	-	25	32
Carrying amount as at 31 December	46	53	50	49	96	102

Post-employment benefits

Prompted by the deterioration of the funding ratio in 2008, ABP introduced a recovery plan in 2009. At the start of each year ABP evaluates the progress of the recovery on the basis of the actual funding ratio at the end of the preceding year. The funding ratio as at year-end 2016 was 91.7%. The pension contribution rate in 2016 was 18.8% of pensionable salary. With effect from 1 January 2017, the contribution rate for the retirement and dependants' pension rises to 21.1%. The main reasons for the increase are the low interest rate and the lower expected return on plan assets in the years ahead.

Alliander's relative share in the ABP pension scheme based on numbers of participants is approximately 0.5%. The pension contributions payable for the multi-employer plans in 2017 are expected to total €61 million (of which an expected €45 million will be borne by the company).

In addition to the 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 two plans are accounted for in accordance with the amended 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. The post-employment benefits provision totalled €2 million at the end of 2016 (2015: €1 million), made up as follows:

	Current portion		Non-current portion		Total	
€ million	2016	2015	2016	2015	2016	2015
Liability for pensions and post-employment healtcare insurance	-	-	2	1	2	1
Actuarial value of obligations as at 31 December	-	-	2	1	2	1

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;

Other long-term employee benefits

	Current Portion		Non-current portion		Total	
€ million	2016	2015	2016	2015	2016	2015
Long-service benefits	2	3	30	30	32	33
Long-term sickness leave and disability benefits	5	4	8	8	13	12
Unemployment benefits	2	2	3	2	5	4
Other	-	1	1	1	1	2
Carrying amount as at 31 December	9	10	42	41	51	51

Termination/reorganisation benefits

This provision covers payments and/or supplements to benefits paid to employees whose employment contract has been or probably will be terminated. These benefits and supplements are based on the Social Plan operated by Alliander and individual arrangements. The Social Plan is periodically renegotiated and agreed. In 2016, an amount of €19 million was added to the reorganisation provision (2015: €19 million). The provision for termination payments/reorganisations totalled €18 million at the end of 2016 (2015: €18 million).

Movements in provisions for long-term employee benefits

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

Movements in provisions for employee benefits

€ million	Post-employment benefits	Other long-term employee benefits	Termination/ reorganisation benefits	Total
Carrying amount as at 1 January 2015	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
Movements 2016				
Released	-	-1	-8	-9
Added	-	12	19	31
Interest expenses	-	1	-	1
Benefits paid	1	-12	-11	-22
Total	1	-	-	1
Carrying amount as at 31 December 2016	2	51	18	71

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

Assumptions

	2016	2015
Mortality tables	generation 2010-2060 layer 2016	generation 2010-2060 layer 2015
Discount rates	-0.01%-1.71%	0.05%-2.36%
Expected future salary increases	2.5%	2.5%
Expected increase in incapacity benefits	2.0%	2.0%

Short-term employee benefits

Short-term employee benefits relate to all obligations to employees, other than the current portion of long-term employee benefits, that are expected to be settled within 12 months after the balance sheet date. Short-term employee benefits include salaries still to be paid, accrued holiday entitlement, bonuses and other staff costs still to be paid, which at year-end 2016 amounted to €25 million (2015: €32 million). Each year, Alliander's Management Board and Supervisory Board meet to set corporate targets which are used in determining performance-related payments for Alliander employees that are included in the CLA. The targets were only partially achieved in 2016, resulting in a lower performance-related payment (€7 million) than in 2015.

Note 16 Other provisions

€ million	Other provisions
Carrying amount as at 1 January 2015	1
Movements 2015	
Added	3
Utilised	-1
Total	2
Carrying amount as at 31 December 2015	3
Movements 2016	
Added	2
Utilised	-
Total	2
Carrying amount as at 31 December 2016	5

The other provisions as at year-end 2016 amounted to €5 million (2015: €3 million) and related to loss-making contracts among other things.

Note 17 Deferred tax

The deferred tax item is made up as follows:

Deferred tax assets

€ million	2016	2015
Differences in valuation of property, plant and equipment	227	259
Other differences	-11	-11
Carrying amount as at 31 December	216	248

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

Gross movement in deferred tax assets

€ million	Property, plant and equipment	Other	Total
Carrying amount as at 1 January 2015	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
Movements 2016			
Added directly via equity	-	2	2
Realised temporary differences	-13	-2	-15
New consolidations	-19	-	-19
Total	-32	-	-32
Carrying amount as at 31 December 2016	227	-11	216

The deferred tax assets of €227 million in respect of property, plant and equipment (2015: €259 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 reduction of €32 million in the amount of the deferred tax assets in 2016 is to a large degree accounted for by the new consolidation (€19 million) and relates to the acquisition of AEF B.V. The change in the deferred tax recognised in the income statement (€15 million) and the change in the deferred tax asset recognised directly in equity (€2 million) have the effect of reducing the deferred tax by a total of €13 million. Reclassified as assets held for sale in 2015 relates to Endinet.

There were no changes in the rates of corporate income tax in 2016. As at year-end 2016, there was an unrecognised deferred tax asset of €15 million. This relates to tax loss carryforwards relating to our activities in Germany and Belgium in connection with the projected results in the medium term for the German and Belgian entities.

The deferred tax liabilities as at year-end 2016 stood at €5 million (year-end 2015: nil). The change is accounted for by the new consolidation of the acquired company 450connect GmbH, amounting to €6 million, being the net effect of tax loss carryforwards of the 450connect GmbH tax group (deferred tax asset of €2 million) and the difference between the reported carrying amount of licences and their corresponding tax base (deferred tax liability of €8 million). There was a change of €1 million (increase in asset) in the tax losses over the course of 2016, making a figure of €3 million as at year-end.

Note 18 Trade and other payables

€ million	2016	2015
Trade payables	73	68
Amounts due to construction contract customers	5	6
Other payables	44	59
Carrying amount as at 31 December	122	133

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 2016 and 2015, 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

€ miljoen	2016	2015
Binnen 1 jaar	24	24
Tussen 1 en 5 jaar	87	98
Meer dan 5 jaar	72	75
Totaal per 31 december	183	197

At 31 December 2016, 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 2016				
Future minimum lease obligations	11	44	235	290
Future finance expense on finance leases	-12	-51	-59	-122
Present value of finance lease obligations	-1	-7	176	168
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

Finance lease payables at year-end 2016 and year-end 2015 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	2016	2015
Less than 1 year	21	23
Between 1 and 5 years	47	35
Over 5 years	13	5
Total as at 31 December	81	63

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	2016	2015
Operating leases	26	28
Additional services	19	19
Total as at 31 December	45	47

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	2016	2015
Capital expenditure commitments regarding property, plant and equipment	124	121
Other purchasing commitments	255	249
Total as at 31 December	379	370

Contingent liabilities

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

In January 2014, the Trade and Industry Appeals Tribunal (CBb) in a dispute with another network operator ruled on the definition of an electricity connection. It was concluded that certain links were no connections within the meaning of the Electricity Act 1998 and the network operator to these parties could not provide services. As of January 1, 2014 the Electricity Act 1998 has changed and these links are still under the legal definition of a connection. The Tribunal's judgment may have consequences for the network operators, including Liander. A number of claims were received by Alliander in 2016. Currently, they are not expected to result in any liabilities for Alliander.

Liander is involved in legal disputes with a number of municipal authorities relating to sufferance tax. Liander could potentially be reclaiming an amount of €18 million. However, given the uncertainties, these receivables have not been recognised in the balance sheet as at 31 December 2016.

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 former situation, the activities concerned were accordingly transferred to an energy supplier at the end of 2015. The ACM has concluded that the activities did indeed fall within the scope of the law with respect to the specific situation in question. In 2016, the regulator ACM issued a further ruling on an enforcement request regarding some of Alliander’s new activities. The ACM concluded that these activities meet the legal frameworks and contribute to the management of energy networks.

Consequently they contribute to the core duty of an increasingly sustainable energy supply with a reliable, affordable and accessible network. The parties that brought the enforcement request have appealed the ACM's 2016 rulings on the matter.

Bank guarantees amounting to €1 million had been issued on Alliander's behalf as at year-end 2016 (2015: €0.6 million).

With respect to the Spaklerweg disposal, it has been agreed that the city authorities will have an option expiring on 30 June 2020 to acquire part of the site and the buildings for the sum of €13 million (to be paid in instalments of €6 million in 2025 and €7 million in 2028). If the option is exercised, conveyance of the property will take place in 2025 and Alliander will continue to have the use of the site until that date. The exercise of the option by the City of Amsterdam at some future date is not expected to affect profit or loss.

Alliander has taken out liability insurance in the form of a Directors and Officers policy covering the members of the Supervisory Board, the members of the Management Board, the operating company managers and other directors within the Alliander group. In addition to the cover provided by this liability insurance, the members of the Supervisory Board are also legally indemnified. As far as possible, the members of the Supervisory Board are also indemnified by Alliander subject to specific conditions and with strict limitations in respect of costs connected with legal proceedings brought under civil, penal or administrative law in which they could become involved by virtue of their membership of the Supervisory Board.

Alliander, together with its Dutch subsidiaries, forms a tax group for both corporate income tax and value added tax (VAT). Consequently, every legal entity forming part of the tax group bears joint and several liability for the tax liabilities of the legal entities included in the tax group. Alliander has also given a declaration of indemnity to its network operator under which its liability in this respect is restricted to the amount for which it itself would be liable if a tax group did not exist.

Convertible subordinated loans were contracted with the shareholders of Alliander in the past and relate to guarantees given on the sale of non-strategic interests. On expiry of these guarantees, the loans were released to income and shares in Alliander were issued in 2006. Some of the guarantees are not time-limited, however. A number of guarantees are, however, for an indefinite period; in the event that there are any subsequent claims on guarantees in the future, the shareholders concerned have a duty to surrender all or part of their shares.

In 2006, following the declaration of the nullity of a claim, a guarantee provision for the sale of associates was released to income and additional shares in Alliander were issued in 2007. The guarantees which have been given are for an indefinite period. It is therefore still possible for claims to be made on these guarantees in the future. Alliander can again also require the shareholders to surrender some or all of their shares.

The agreement between Alliander and Enexis on the exchange of regional energy distribution networks contains a number of indemnifying clauses covering such things as sufferance tax and consumer unit/meter boxes.

Note 21 Revenue

€ million	2016	2015
Electricity transport and connection services	1,012	980
Gas transport and connection services	313	299
Metering services	120	145
Other revenues[1]	139	116
Total	1,584	1,540

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

Revenue for 2015 was up by €44 million compared with 2015, at €1,584 million. The increase is mainly accounted for by the addition of the newly acquired service area in Friesland and the Noordoostpolder (€62 million) combined with growth in the number of connections for both gas and electricity as well as for the metering services (€14 million). In the regulated domain, the reduced charges for gas and electricity distribution and new connections (down by €22 million) and for metering services (down by €33 million) had a negative impact on revenue while growth in activities outside the regulated domain produced an increase in other revenue (€23 million).

Note 22 Other income

€ million	2016	2015
Amortisation of construction contributions	66	64
Operating contributions and other income[1]	73	76
Total	139	140

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

Other income in 2016 came in at €139 million (2015: €140 million). Other income mainly relates to the amortisation of connection contributions from our customers (€66 million) and incidental/regular contributions towards operating costs (€32 million). The rest is made up of sundry other income, including compensation received for losses, rents and book profits on the sale of assets plus other income (total €41 million).

Note 23 Purchase costs and costs of subcontracted work

€ million	2016	2015
Grid losses	61	71
Transport capacity and restrictions	175	160
Billing and payment collection	9	7
Contractors, materials and other	157	162
Total	402	400

Purchase costs and costs of subcontracted work was up by €2 million compared with 2015, at €402 million. This increase is mainly the effect of increased costs of transport capacity and restrictions amounting to €15 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

€ million	2016		2015	
Salaries		342		330
Social security premiums		41		39
Pension costs:				
- Contributions paid to multi-employer plans that are accounted for as defined-contribution plans		40		40
Termination benefit expenses	11		12	
Other long-term employee benefit expenses	12		8	
		23		20
Other staff costs		16		15
Total		462		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
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
2016				
Contributions paid to multi-employer plans	40	-	-	40
Added to provision	-	19	12	31
Released from provision	-	-8	-1	-9
Interest expense	-	-	1	1
Total 2016	40	11	12	63

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 €123 million (2015: €125 million) and related to contract staff for specific projects and to fill vacancies.

The number of staff employed by Alliander, based on a 38-hour working week (FTEs), is shown in the table below:

Number of permanent staff (FTEs)

	2016	2015
Employed in continuing operations		
-Average during the year[1]	5,621	5,572
-As at 31 December[1]	5,682	5,560
-Number of permanent staff outside the Netherlands	179	172

1 The figures have been restated for comparison purposes.

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 network operator Liander N.V. , which is 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 report of the network operator, which is to be published in the second quarter of 2017, will contain disclosures on the WNT requirements applicable to the network operator.

Remuneration of the Management Board and the Supervisory Board

The Remuneration Report sets out the remuneration policy, its implementation and the remuneration of the Management Board and the Supervisory Board (key management). These three sections can be found in article 'Corporate governance' of the 2016 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

	Fixed salary		Short-term variable remuneration		Long-term variable remuneration		Total	
€ thousand	2016	2015	2016	2015	2016[1]	2015	2016	2015
P.C. Molengraaf	252	251	-	75	31	74	283	400
M.R. van Lieshout	237	236	-	71	29	69	266	376
I.D. Thijssen	208	208	-	-	-	-	208	208
Total	697	695	-	146	60	143	757	984

1 This includes the difference between the accrued entitlement as at year-end 2015 and the actual payment in 2016. For Mr Molengraaf, this is an amount of €7,000 and for Mr Van Lieshout €6,000.

The fixed salary concerns the actual payment per annum, without amounts accrued for other remuneration elements. The short-term variable remuneration element was discontinued at the end of 2015. The long-term variable remuneration concerns a payment that has been earned over a period of three years. As at year-end 2016, the long-term variable remuneration figure concerns the period 2014–2016. The award of a long-term variable remuneration element has now also been discontinued, with the long-term variable remuneration for the period 2014–2016 being the last award and payment to be made. For details of the long-term variable remuneration payable, see the Remuneration Report.

Pension contributions

€ thousand	2016	2015
P.C. Molengraaf	18	19
M.R. van Lieshout	18	18
I.D. Thijssen	17	18
Total	53	55

Social security charges and other remuneration elements

€ thousand	2016	2015
P.C. Molengraaf	26	25
M.R. van Lieshout	25	25
I.D. Thijssen	12	11
Total	63	61

In addition to the normal social security charges and contributions applicable to the company, the members of the Management Board have a right to an employer's contribution towards the group health insurance premium, premiums connected with the personalised package of secondary conditions of employment (Dutch acronym: PBA), an expense allowance and the use of a company car.

Remuneration of the Supervisory Board

€ thousand	2016	2015
E.M. d'Hondt, Chairman[1]	13.4	26.7
ms. A. Jorritsma-Lebbink, Chairman[2]	13.4	-
G.L.M. Hamers[3]	13.1	-
ms. J.G. van der Linde	17.8	17.8
B. Roetert[4]	17.8	15.4
ms. A.P.M. van der Veer-Vergeer[5]	21.8	33.7
J.C. van Winkelen[6]	4.8	21.4
Total	102.1	115.0

1 Mr d'Hondt retired on 30 June 2016.
2 Ms Jorritsma-Lebbink was appointed with effect from 1 July 2016.
3 Mr Hamers was appointed with effect from 7 April 2016.

4 Mr Roetert was appointed with effect from 20 February 2015.
5 Ms Van der Veer-Vergeer was reappointed with effect from 7 April 2016. In 2015 and the first quarter of 2016, in addition to sitting on the Audit Committee, she was acting member of the Selection, Appointments and Remuneration Committee (which was temporarily below strength).
6 Mr Van Winkelen retired on 7 April 2016.

The differences in remuneration are connected with i) positions held, ii) tenure in those positions, iii) transitional entitlements under the WNT or a combination of these things. Transitional entitlements under the WNT ceased to be applicable in the course of 2016 on the reappointment of a Supervisory Board member.

Note 25 Other operating expenses

€ million	2016	2015
Additions / releases to provisions	4	-60
Premises and transport	13	14
Rent and leases	42	43
Corporate staff and ICT	65	55
Sufferance tax and other taxes	154	111
Other	55	45
Total	333	208

Other operating expenses amounted to €333 million in 2016 compared with €208 million in 2015. The increase of €125 million was mainly due to higher sufferance tax charges (up by €39 million) and the fact that other operating expenses in 2015 included exceptional gain of €66 million.

Severance tax charges in 2016 amounted to €149 million compared with €110 million in 2015. This increase of €39 million was due to the imposition of sufferance taxes by various new local authorities combined with higher rates of tax charged.

Additions to provisions amounted to €4 million (2015: €60 million released). The amount released in 2015 mainly concerns the settlement of the CDS for an amount of €66 million.

The remainder of the increase in operating expenses mainly relates to higher costs for professional services (particularly in relation to the Tulp project concerned with the purchase of the service area in Friesland and the Noordoostpolder), together with higher ICT costs.

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	2016	2015
Description of services:		
Audit of the financial statements:	0.8	0.8
Other assurance services	0.2	0.3
Total	1.0	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 entire network of which the accountancy firm is part. These fees relate to the audit of the financial statements for 2015 and 2016.

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

€ million	Land and buildings	Networks	Other	Total
2016				
Depreciation	9	238	110	357
Divestments	-	14	18	32
Impairments	-	5	1	6
Total 2016	9	257	129	395
2015				
Depreciation	6	212	92	310
Divestments	2	13	13	28
Total 2015	8	225	105	338

An impairment loss of €6 million was recognised in 2016 in respect of the distribution systems in Germany.

The divestments include the accelerated depreciation of decommissioned assets.

Note 27 Finance income

€ million	2016	2015
Interest income on loans and deposits	-	1
Fair value movements swaps	1	-
Other finance income	12	14
Currency translation differences	5	39
Total	18	54

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

€ million	2016	2015
Loans from third parties	-51	-65
Capitalised interest assets under construction	-	1
Currency translation differences	-5	-44
Other finance expense	-16	-17
Total	-72	-125

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

€ million	2016	2015
Current tax expense	-28	-59
Movement in deferred taxes	-14	-8
Total	-42	-67

The recognised tax expense of €28 million is made up of tax charges of €29 million for 2016 and an adjustment of €1 million (gain) relating to prior years. This adjustment relates to a tax charge which, with the agreement of the Dutch Tax & Customs Administration, is no longer being recovered in instalments by setting against the tax liability in future years.

The corporate income tax charge on the taxable profit of the Alliander N.V. tax group for 2016 amounts to €25 million. This is the balance of the calculated corporate income tax on the profit for 2016 (€29 million) and the calculated corporate income tax on movements in balance sheet items recognised directly in equity (€4 million tax credit).

The movement in the deferred tax position of €14 million negative is made up of a movement in the deferred tax assets of €15 million negative and a movement in the deferred tax liabilities of €1 million positive.

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

%	2016	2015
Enacted corporate income tax rate in the Netherlands	25.0	25.0
Impact of:		
Losses not accounted for	1.9	0.1
Other permanent differences	0.6	-
Effective corporate income tax rate	27.5	25.1

The higher effective tax rate in 2016 is due to unrecognized losses of Alliander AG/Allego GmbH and other cost items that are disallowed for tax purposes.

Note 30 Notes to the consolidated cash flow statement

Cash flow from operating activities

The cash flow from operating activities in 2016 amounted to €376 million compared with €513 million in 2015. The decrease of €137 million compared with 2015 is largely accounted for by a fall in the operating profit, partly as a consequence of the reduction in the regulated tariffs (€55 million) and the increase in sufferance tax charges (€39 million). In addition, the amount of corporate income tax paid in 2016 was €27 million higher, owing to assessments received for prior years which have been paid.

Cash flow from investing activities

The cash outflow from investing activities in 2016 amounted to €232 million, which is €260 million lower than in 2015. The lower cash outflow overall in 2016 is the net effect of a cash inflow connected with the exchange of service areas (€359 million) set against which there was actually a higher level of expenditure on property plant and equipment (€680 million compared with €575 million in 2015). The increase of €105 million mainly relates to electricity distribution networks and meters in connection with the large-scale rollout of smart meters. The contributions towards capital projects received from third parties in 2016 amounted to €99 million, which is slightly higher than in 2015 (€85 million).

Cash flow from financing activities

The cash flow from financing activities in 2016 amounted to €185 million negative (2015: €99 million negative). The negative cash flow in 2016 was due to net repayments under the EMTN programme amounting to €100 million plus the dividend distribution of €85 million. The negative cash flow in 2015 is mainly accounted for by the redemption of Euro Commercial Paper (ECP loans) of €112 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: 2 May 2024). Liander N.V. executes the tasks incumbent on it under the E-Act and the G-Act. On 31 December 2016, Liander Infra Oost N.V. and Liander Infra West N.V. were merged to create Liander Infra N.V.

Note 32 Related parties

As holder of 45% of the shares in Alliander, the Province of Gelderland has significant influence over the company, qualifying the province as a related party. At year-end 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	2016	2015
Sales of goods and services		
Associates	-	-
Joint ventures	80	72
Total	80	72
Purchase of goods and services		
Associates	9	9
Joint ventures	106	93
Total	115	102

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 (IAS24, paragraph 25). With the exception of the establishment of Duurzame Energie Netwerken Gelderland B.V. (DENG B.V.) in 2015, there were no material transactions involving the Province of Gelderland. There were no material transactions with individuals who qualify as related parties. For disclosures relating to the remuneration of the members of the Management Board, who do qualify as related parties, reference is made to note [24].

Outstanding accounts with related parties connected with purchase and sale transactions involving related parties are immaterial. As at year-end 2016, Alliander had assets of €17 million (2015: €19 million) in respect of loans granted to related parties and liabilities of €9 million in respect of agreed borrowings on current accounts with related parties (2015: €16 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.

Balance sheet

The total net assets include goodwill amounting to €36 million relating to Endinet's activities.

€ 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
Revenue	95
Other Income	5
Total income	100
Operating expenses	
Purchase costs and costs of subcontracted work	-14
Employee benefit expenses	-21
External personnel expenses	-2
Other operating expenses	-8
Total purchase costs, costs of subcontracted work and operating expenses	-45
Depreciation and impairment of property, plant and equipment	-9
Less: Own work capitalised	5
Total operating expenses	-49
Operating profit	51
Finance income	-
Finance expense	-
Profit before tax	51
Tax	-13
Profit after tax	38

Sale of the shares of Endinet Groep B.V.

Effective 1 January 2016, the shares of Endinet Groep B.V. were sold to Enexis. For the purposes of determining 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 was done on the basis of cash flows for the medium and long term, regulatory developments, outperformance effects and synergy gains. The fair value of Endinet Groep B.V. as at 1 January 2016 including the final settlement has been calculated at €708 million. The carrying amount of the assets and liabilities transferred to Enexis on the above basis was €518 million.

The book profit has been determined as follows:

€ million	
Fair value Endinet	708
Total net assets	-518
Contributions for personnel	-14
Book result	176

The contribution for personnel related to the payment to be made by Alliander to Enexis in respect of the transfer of 'Not Primarily Network'-related staff from Alliander/Endinet to Enexis. This is covered by separate agreements in the SPA.

The book profit is recognised in the result from discontinued operations in the income statement for 2016.

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 2016 mainly relate to balance sheet positions in USD. These risks are hedged as far as possible. Subsidiaries report currency positions and risks to Alliander's Treasury Department. These positions and risks are principally hedged back-to-back with external counterparties through spot and forward exchange contracts.

Exposure to currency risk and sensitivity analysis

Alliander's exposure to currency risk based on nominal value is presented in the table below. This table shows the pre-tax effect that a possible increase or decrease in the value of foreign currencies relative to the euro would have, assuming all other circumstances remained unchanged, on Alliander's finance income and expense and equity, taking into account derivatives concluded to hedge the currency risk. The effects on equity and results are calculated at year-end exchange rates. Alliander operates mainly in the Netherlands and to a small extent in Germany and so has no currency risk on its normal operations. Non-operational risks of this nature as at year-end 2016 related to the assets and liabilities connected with two cross-border lease contracts disclosed in the financial statements.

Liander recognises USD investments and liabilities for two CBL contracts in the balance sheet. The table shows that currency risks do not directly affect the equity position. All currency translation gains and losses are recognised through the income statement.

Finance was raised in 2016 under the Euro Commercial Paper Programme, denominated in US dollars (USD). This position, too, is hedged by means of forward currency contracts. The currency translation differences are recognised through profit or loss and do not affect the equity position.

Currency risk sensitivity analysis

	Position	Income		Equity	
€ million		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)	-	-	-	-	-

There was no currency exposure as at 31 December 2016.

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

Exchange rates

EUR	2016	2015
USD	1.055	1.087

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 2016 or 2015.

Maturity date or earlier contractual interest repricing date

€ million	Effective interest rate	Variable/fixed	Carrying amounts Less than 1 year	Between 1 and 5 years	Over 5 years	Total
As at 31 December 2016						
Assets						
Available-for-sale financial assets and other financial assets	4.7%	Fixed / variable	15	-	224	239
Loans and receivables			3	10	25	38
Cash and cash equivalents		Variable	48	-	-	48
Total assets			66	10	249	325
Loans received						
Subordinated loans	8.6%	Fixed	-5	-26	-50	-81
Private and green loans	1.0%	Fixed	-1	-2	-10	-13
Euro Medium Term Notes	2.6%	Fixed	-	-299	-1,095	-1,394
Euro Commercial Paper	0.0%	Fixed	-75	-	-	-75
Other		Variable	-	-	-1	-1
Finance lease obligations	6.3%	Fixed	1	7	-176	-168
Total liabilities			-80	-320	-1,332	-1,732
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

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 2016 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 2016					
Variable-rate instruments	15	-	-	-	-
Sensitivity of cash flow (net)	15	-	-	-	-
As at 31 December 2015					
Variable-rate instruments	25	-	-	-	-
Sensitivity of cash flow (net)	25	-	-	-	-

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 an interest rate swap, the fixed-rate bond loan issued in 2016 was converted into a variable-rate loan. Simultaneously with the issue of the bond loan, the interest rate swap was settled yielding a profit recognised as finance income.

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 (2019) 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 2016 was practically nil (2015: practically nil).

Cash flow hedges

As at year-end 2016, the balance of the cash flow hedge reserve after deduction of deferred tax was practically nil (2015: 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. 88% of the cash and cash equivalents (2015: 76%) 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 $2.7 billion (2015: $2.6 billion). The carrying amount of the associated available-for-sale financial assets included in Alliander's balance sheet amounts to €224 million (2015: €229 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	2016	2015
Not overdue	34	34
0-30 days	15	23
31-90 days	6	7
91-360 days	8	6
> 360 days	8	4
Carrying amount as at 31 December	71	74

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

Movements in the provision for bad debt

€ million	2016	2015
Carrying amount as at 1 January	9	10
Utilised (trade receivables written off)	-1	-2
Released from / added to allowance account charged to income	4	3
Reclassification to assets held for sale	-	-2
Carrying amount as at 31 December	12	9

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 (2015: 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 2016 Alliander had a committed credit facility of €600 million (up to 30 June 2021). 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 2016, Alliander has an ECP programme totalling €1.5 billion under which an amount of €75 million was outstanding as at year-end (2015: €0.05 billion) and an EMTN programme of €3 billion under which an amount of €1.4 billion was outstanding as at 31 December 2016 (2015: €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 2016, as in the preceding year, Alliander did not receive any margin call requests.

Liquidity risk 2016 and 2015

	Carrying amount	Contractual cash flows			
€ million		Less than 1 year	1 - 5 years	Over 5 years	Total
As at 31 December 2016					
Loans received					
Principal amounts	-1,564	-81	-328	-1,162	-1,571
Interest	-	-44	-146	-305	-495
Finance lease obligations	-168	-11	-44	-235	-290
Accounts payable	-122	-122	-	-	-122
Other payables	-330	-329	-	-1	-330
Off balance sheet commitments					
Operating lease liabilities	-	-21	-47	-13	-81
Total	-2,184	-608	-565	-1,716	-2,889
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

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: According to this hierarchy, the input data levels for measuring fair value are defined as follows:

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

Fair value hierarchy

€ million	31 December 2016				31 December 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Available-for-sale financial assets	-	224	-	224	-	229	-	229
Current derivatives	-	-	-	-	-	-	-	-
Total Assets	-	224	-	224	-	229	-	229
Liabilites								
Current derivatives	-	-	-	-	-	-	-	-
Total Liabilities	-	-	-	-	-	-	-	-

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.

Fair value of other financial instruments

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

Fair value of financial assets and liabilities measured at amortised costs

€ million	Note	31 December 2016		31 December 2015	
		Fair value	Level	Fair value	Level
Non-current assets					
Other financial assets	7	45	2	47	2
Liabilities					
Non-current liabilities					
Finance lease liabilities	19	-232	2	-230	2
Interest-bearing debt:					
Euro Medium Term Notes	13	-1,564	1	-1,236	1
Other interest-bearing debt	13	-116	2	-128	2
Total non-current liabilities		-1,912		-1,594	
Short-term liabilities					
Interest-bearing debt:					
Euro Medium Term Notes	13	-	1	-405	1
Euro Commercial Paper	13	-75	2	-46	2
Other interest-bearing debt	13	-13	2	-38	2
Total short-term liabilities		-88		-489	
Total liabilities		-2,000		-2,083	

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 future incoming cash flows discounted using risk-free interest rates plus credit spreads for these or similar investments. As regards the current portion of these assets, it is assumed that the fair value is more or less the same as the carrying amount.

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

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

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

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

Financial policy

Alliander's financial policy, which is part of its general policy and strategy, is to obtain an adequate return for shareholders and to protect the interests of bondholders and other providers of capital, while maintaining the flexibility to grow and invest in the business. As part of Alliander's financial framework, the subordinated perpetual bond loan issued in 2013 is treated as 50% equity and 50% borrowed capital. This is contrary to IFRS, under which the subordinated perpetual bond loan is considered to be 100% equity.

Finance income and expense

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

Effect of financial instruments on income statement

€ million	2016	2015
Net result on derivatives held for trading:		
Fair value changes in currency instruments	-	4
Fair value changes interest rate derivatives and options	1	-
Net result on available-for-sale financial assets	5	29
Net result on financial liabilities at amortised cost:		
Interest charges on financial liabilities at amortised cost	-62	-76
Interest gains on cash equivalents, loans granted, trade receivables, other receivables and deposits	12	13
Currency translation differences	-5	-34
Fees paid and received other than for the calculation of the effective interest rate	-5	-2
Net changes in fair value of cash flow hedges transferred from equity	-	-
Net finance income and expense	-54	-66
Impairments of trade receivables	-4	-3
Fair value changes CDS	-	62
Other operating expenses	-4	59

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

Effect of financial instruments on equity

€ million	2016	2015
Net changes in fair value of cash flow hedges transferred to the income statement	-	-
Total recognised in cash flow hedge reserve	-	-

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. The existing traditional meters used by retail customers will be replaced in an accelerated manner over the next few years through the large-scale installation of smart meters. The depreciation of meters due for replacement will be accelerated to 2020, leading to the depreciation charge being higher by €3.1 million each year compared with 2015.

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.

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 and for the assets and liabilities of 450connect GmbH. The relevant disclosures are contained in note [1].

Note 36 Events after balance sheet date

There have been no events since the balance sheet date.

Company financial statements

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

€ million	Note	2016		2015	
Non-current assets					
Property, plant and equipment	37	274		253	
Intangible assets	38	70		107	
Investments in subsidiaries and associates	39	1,855		2,228	
Other financial assets	40	2,610		2,609	
Total non-current assets			4,809		5,197
Current assets					
Other receivables	46	42		13	
Other financial assets		15		25	
Receivables from subsidiaries	41	735		326	
Cash and cash equivalents	42	41		77	
Total current assets			833		441
Total assets			5,642		5,638
Equity	43				
Share capital		684		684	
Share premium		671		671	
Subordinated perpetual bond loan[1]		496		496	
Revaluation reserve[1]		46		53	
Other reserves		1,685		1,548	
Result for the period		282		235	
Total equity			3,864		3,687
Non-current liabilities					
Interest-bearing debt	44	1,482		1,189	
Total non-current liabilities			1,482		1,189
Provisions	45		47		45
Short-term liabilities					
Current and accrued liabilities		249		717	
Total short-term liabilities	46		249		717
Total equity and liabilities			5,642		5,638

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

Company income statement

€ million	Note	2016		2015	
Revenue		10		7	
Own work capitalised		28		25	
Other income		295		299	
Total income	48		333		331
Costs of subcontracted work and other external expenses	49	-60		-62	
Employee benefit expenses	50	-116		-105	
Social security premiums	50	-9		-9	
Depreciation of intangible assets and Property, plant and equipment	51	-64		-63	
Other operating expenses	52	-123		-123	
Total operating expenses			-372		-362
Operating profit			-39		-31
Proceeds from receivables included in non-current assets and securities	53		149		167
Interest and similar expenses	54		-79		-124
Profit before tax			31		12
Tax	55		-9		-2
Share of profit / loss from investments in affiliated companies	56		260		225
Profit after tax			282		235

Company statement of comprehensive income

€ million	2016	2015
Net profit	282	235
Movement revaluation reserve	-7	11
Comprehensive income	275	246

Notes to the company financial statements

Accounting policies

The company financial statements of Alliander N.V. (Chamber of Commerce company reg. no. 34108286) have been prepared according to the provisions of Part 9, Book 2, of the Netherlands Civil Code. The accounting policies used are the same as those used for the consolidated financial statements, in accordance with the provisions of Section 362, subsection 8 of Part 9, Book 2, of the Netherlands Civil Code, with investments in group companies accounted for on the basis of net asset value.

The company financial statements of Alliander N.V. comprise the company balance sheet, the company income statement and the company statement of comprehensive income. The notes to the company financial statements constitute an integral part of the company financial statements of Alliander N.V.

The carrying amount of the entities included in the consolidation is measured at net asset value, the company's economic interest being measured at fair value on initial recognition, with the carrying amount subsequently increased or reduced by the company's share in the results. Dividends received are deducted from the carrying amount.

The functional currency of Alliander N.V. is the euro. Unless otherwise stated, all amounts are in millions of euros. For the detailed policies, reference is made to the accounting policies for the consolidated financial statements.

Note 37 Property, plant and equipment

€ million	Land and buildings	Other plant and equipment	Assets under construction	Total
Historical cost	150	345	73	568
Accumulated depreciation and impairments	-80	-245	-	-325
Carrying amount as at 1 January 2015	70	100	73	243
Movements 2015				
Investments	-	17	61	78
Divestments	-2	-5	-	-7
Depreciation	-5	-50	-	-55
Reclassifications, 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 impairments	-65	-259	-	-324
Carrying amount as at 31 December 2015	131	106	16	253
Movements 2016				
Investments	-	19	65	84
Divestments	-	-	-	-
Depreciation	-8	-55	-	-63
Reclassifications, transfers and other movements	9	28	-37	-
Total	1	-8	28	21
Carrying amount as at 31 December 2016				
Historical cost	205	411	44	660
Accumulated depreciation and impairments	-73	-313	-	-386
Carrying amount as at 31 December 2016	132	98	44	274

Investments

Capital expenditure on property, plant and equipment totalled €84 million (2015: €78 million). This relates mainly to the redevelopment of the site in Arnhem and investment in hardware and software.

Note 38 Intangible assets

€ million	Goodwill	Other intangible assets	Total
As at 1 January 2015			
Historical cost	104	-	104
Carrying amount as at 1 January 2015	104	-	104
Movements 2015			
New consolidations	-	3	3
Total	-	3	3
As at 31 December 2015			
Historical cost	104	4	108
Accumulated depreciation and impairment	-	-1	-1
Carrying amount as at 31 December 2015	104	3	107
Movements 2016			
Discontinued consolidations	-36	-	-36
Depreciation	-	-1	-1
Total	-36	-1	-37
As at 31 December 2016			
Historical cost	68	4	72
Accumulated depreciation and impairment	-	-2	-2
Carrying amount as at 31 December 2016	68	2	70

Goodwill as at year-end 2016 is made up of goodwill relating to the acquisition of Endinet (€61 million), which is allocated to Liander, and Stam (€7 million), see note [4]. The decrease in the amount of goodwill compared with 2015 is accounted for by the goodwill allocated to the subsidiary Endinet Groep B.V. sold with effect from 1 January 2016.

Note 39 Investments in subsidiaries and associates

€ million	Investments in subsidiaries	Investments in associates	Total
Carrying amount as at 1 January 2015	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
Movements 2016			
Dividends received	-216	-	-216
Result for the year	84	-	84
Issue of share capital	73	-	73
Movement in revaluation reserve	-8	-	-8
Sale interest Endinet	-307	-	-307
Other changes	1	-	1
Total	-373	-	-373
Carrying amount as at 31 December 2016	1,854	1	1,855

Dividends amounting to €216 million (2015: €339 million) were received in 2016 from the subsidiary Liander N.V. and the joint operation Utility Connect B.V. The investment of €73 million in 2016 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 each year.

The various share capital investments are listed separately under the heading ‘Principal subsidiaries, associates and joint arrangements’ at the end of this section.

Note 40 Other financial assets

€ million	Deferred tax assets	Loans granted to subsidiaries	Other receivables	Total
Carrying amount as at 1 January 2015	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
Movements 2016				
New receivable	-	-	15	15
Loans paid	-	-	-14	-14
Total	-	-	1	1
Carrying amount as at 31 December 2016	10	2,585	15	2,610

In June 2015, Alliander granted a long-term loan of €2,566 million to Liander, along with other lending. This amount was deducted from the current account in 2015. This means that there are two separate financing arrangements between Alliander and Liander, namely 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 2016 is 4.0% (2015: 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 2016 the fair value is €3,163 million (2015: €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 3.77% for subsidiaries operating in the regulated market, 4.02% for 'Stable Business' subsidiaries and 4.77% 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 2016 did not include any restricted cash (2015:nil).

Note 43 Equity

The statement of changes in equity is included in the consolidated financial statements and note [12]. The share premium reserve is treated as paid-in share capital for tax purposes.

Note 44 Non-current liabilities

Interest rates and repayments on long-term liabilities were as follows:

Interest-bearing debt

€ million	2016	2015
Carrying amount as at 1 January	1,660	1,764
Movements		
New loans	844	475
Loans repaid	-942	-579
Total	-98	-104
Carrying amount as at 31 December	1,562	1,660

Long-term interest-bearing debt including current portion

	Effective interest rate		Current portion		Non-current portion	
€ million	2016	2015	2016	2015	2016	2015
Subordinated loans	8.6%	8.6%	5	5	75	81
Private and green loans	1.0%	2.1%	-	20	13	13
Euro Medium Term Notes	2.6%	3.7%	-	400	1,394	1,095
Euro Commercial Paper	0.0%	0.4%	75	46	-	-
Carrying amount as at 31 December			80	471	1,482	1,189

The interest rate on the short-term ECP programme is a floating rate.

Maturities of interest-bearing debt

€ million	2016	2015
Less than 1 year	81	471
Between 1 and 2 years	6	6
Between 2 and 3 years	306	6
Between 3 and 4 years	7	306
Between 4 and 5 years	8	7
Over 5 years	1,154	864
Carrying amount as at 31 December	1,562	1,660

Subordinated loans

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

Note 45 Provisions

€ million	Post-employment medical benefits	Termination benefits	Other employee provisions	Total
Carrying amount as at 1 January 2015	-	5	39	44
Movements 2015				
Released	-	-5	-2	-7
Added	-	17	9	26
Utilised	-2	-13	-9	-24
Interest expenses	-	-	1	1
Major curtailments and settlements	2	1	2	5
Total	-	-	1	1
Carrying amount as at 31 December 2015	-	5	40	45
Movements 2016				
Released	-	-6	-	-6
Added	-	19	12	31
Utilised	-	-12	-12	-24
Interest expenses	-	-	1	1
Major curtailments and settlements	-	-	-	-
Total	-	1	1	2
Carrying amount as at 31 December 2016	-	6	41	47

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 2016, had practically run down to zero. As at year-end 2016, the reorganisation provision amounted to €6 million (2015: €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. For pensions, see note [15].

Note 46 Short-term liabilities

€ million	2016	2015
Short-term liabilities		
Debts to suppliers and trade credits	12	14
Debts to associates and participants	9	16
Taxes and social security contributions	62	102
Liabilities in respect of pensions	4	4
Interest-bearing liabilities	81	471
Other liabilities and accruals	81	110
Total short-term liabilities	249	717

The short-term liabilities, accruals and deferred income relate to trade payables, taxes payable and the other short-term liabilities. The 2015 figures also include the repayment liabilities of €400 million under the EMTN programme due in 2016. The corporate income tax position is at year-end 2016 a receivable (€31 million) which is presented in 'Other receivables' and not in the short-term liabilities (2015: €36 million).

Note 47 Contingent assets and liabilities

Pursuant to Section 403 Book 2, of the Netherlands Civil Code, Alliander has assumed liability for the obligations arising from the legal acts of several of the subsidiaries listed in the Notes to the company financial statements. Alliander, together with its Dutch subsidiaries, forms a tax group for both corporate income tax and value added tax (VAT). Consequently, every legal entity forming part of the tax group bears joint and several liability for the tax liabilities of the legal entities included in the tax group. Alliander has also given a declaration of indemnity to its network operator under which its liability in this respect is restricted to the amount for which it itself would be liable if a tax group did not exist.

As at year-end 2016, Alliander had issued parent company guarantees amounting to €59 million (2015: €50 million). Bank guarantees amounting to €1 million had been issued on Alliander's behalf as at year-end 2016 (2015: €0.1 million).

Operating leases

The following table presents the future minimum operating lease payment obligations. Alliander has operating lease payables, mainly relating to buildings and company cars.

€ million	2016	2015
Less than 1 year	16	19
Between 1 and 5 years	38	26
Over 5 years	10	2
Total as at 31 December	64	47

Capital expenditure commitments

The following table presents the existing capital expenditure commitments and other purchase commitments as at year-end.

€ million	2016	2015
Capital expenditure commitments regarding property, plant and equipment	6	30
Other purchasing commitments	80	68
Total	**86**	**98**

Note 48 Operating income

€ million	2016	2015
Revenue	10	7
Own work capitalised	28	25
Other income	295	299
Total	333	331

Revenue mainly comprises charges passed on for CDMA data communication network services. The other operating income chiefly relates to group-wide activities at holding company level.

Note 49 Costs of subcontracted work and other external expense

€ million	2016	2015
Purchase costs and costs of subcontracted work, external personnel and other	60	62
Total	60	62

Note 50 Employee benefit expense

€ million		2016		2015
Salaries		85		80
Social security premiums		9		9
Pension costs:				
- contributions paid to multi-employer plans that are accounted for as defined-contribution plans		11		11
Termination benefit expenses	5		4	
Other long-term employee benefit expenses	6		2	
		11		6
Other staff costs		9		8
Total		125		114

Staff costs mainly concerns the costs of group-wide activities at holding company level. Nearly all the personnel are on the Alliander N.V. payroll. The staff costs are charged to the business units where the employees concerned work. The total staff costs recognised in the income statement (2016: €125 million; 2015: €114 million) relate to Alliander N.V. corporate staff department and service unit staff.

The number of employees, based on a 38-hour week (FTE), at year-end 2016 was 1,174 (2015: 1,200).

Note 51 Depreciation and amortisation

€ million	Land and buildings	Other	Total
2016			
Depreciation	8	56	64
Total 2016	8	56	64
2015			
Depreciation	5	51	56
Divestments	7	-	7
Total 2015	12	51	63

The column headed 'Other' includes ICT-related depreciation/amortisation and the amortisation of intangible assets.

Note 52 Other operating expenses

€ million	2016	2015
Items charged by subsidiaries	13	10
Premises and transport	6	7
Rent and leases	38	40
Corporate staff and ICT	41	44
Notary and consulting expenses	17	11
Sufferance tax and other taxes	1	1
Other	7	10
Total	123	123

Costs passed on by group companies mainly concerns internal development projects at holding company level.

Note 53 Finance income

€ million	2016	2015
Interest income on loans and deposits	1	1
Fair value movements on financial instruments	1	-
Financial income on loans from group companies	147	166
Total	149	167

The finance income on loans to group companies was €19 million lower than in 2015 owing to a reduction in the interest rate charged and a reduction in the amount of current-account receivables from group companies.

Note 54 Finance expense

€ million	2016	2015
Loans from third parties	51	65
Capitalised interest assets under construction	-	-1
Finance expense on loans from group companies	26	58
Currency translation differences	-	1
Other finance expense	2	1
Total	79	124

The finance expense on loans from third parties was €14 million lower owing to a lower net debt in 2016 following repayment of €400 million of borrowing under the EMTN programme and contracting of a loan of €300 million at a lower interest rate.

The finance expense on loans from group companies was €32 million lower mainly owing to a change in the composition of group companies, resulting in a reduction in both income and expense overall.

Note 55 Tax

€ million	2016	2015
Current tax expense	-9	-7
Movement in deferred taxes	-	5
Total	-9	-2

The effective tax rate was 29.3%. This relates to a net tax expense of €9 million made up of €10 million in tax for the 2016 financial year (including tax of €1 million in respect of permanent differences) and tax adjustments in respect of prior years (€1 million tax recovery).

Note 56 Share in profit/loss of subsidiaries, associates and joint arrangements

The share in results of companies invested in after tax was down by €141 million, mainly owing to lower profits from the network operator and the absence in 2016 of a share in the profit of Endinet Groep B.V. following the sale of that company.

The share in results from discountinued interest in subsidiaries and associates arises in connection with the sale of Endinet.

€ million	2016	2015
Result from interests in subsidiaries and associates after tax	84	225
Result from discontinued interests in subsidiaries and associates after tax	176	-
Share of profit / loss from investments in affiliated companies	260	225

Dividend proposal 2016

The Management Board has determined, with the approval of the Supervisory Board, to add €178.1 million of the profit to other reserves. The remaining profit of €103.8 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 2016 financial year.

The dividend for 2016 was up by €18.8 million compared with 2015 mainly as a result of the disposal of Endinet with effect from 1 January 2016.

Events after balance sheet date

There have been no events since the balance sheet date.

Important subsidiaries and other participations

Principal subsidiaries and other participations

As at 31 December 2016	Based in	%
Consolidated subsidiaries		
Liander N.V. *	Arnhem	100%
Liander Infra N.V. *	Arnhem	100%
Liandon B.V. *	Duiven	100%
Stam Heerhugowaard Holding B.V. *	Heerhugowaard	100%
Stam & Co. Materieel B.V.*	Heerhugowaard	100%
Telinfra Support B.V.*	Heerhugowaard	100%
Stam & Co. Leidingwerken B.V.*	Heerhugowaard	100%
Stam & Co. Infratechniek B.V.*	Heerhugowaard	100%
Sol Energy v.o.f.*	Heerhugowaard	67%
Alliander Telecom N.V. *	Amsterdam	100%
Kenter 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%
Alliander Start-ups Holding B.V.	Arnhem	100%
BackHoom B.V. *	Arnhem	100%
Energy Exchange Enablers B.V.*	Arnhem	100%
Locol (Alliander Smart Connections B.V.)*	Arnhem	100%
Alliander Duurzame Gebiedsontwikkeling *	Amsterdam	100%
Indigo B.V.	Arnhem	95%
Warmtenetwerk Hengelo B.V.	Hengelo	95%
Warmte-Infrastructuur Limburg Geothermie B.V.	Venlo	100%
Zown B.V.*	Arnhem	100%
Smart Society Services B.V.*	Arnhem	100%
Alliander AG	Berlin	100%
Alliander Netz Heinsberg GmbH	Heinsberg	100%
Alliander Stadtlicht GmbH	Berlin	100%
2. Alliander Vorratsgesellschaft mbH	Osthavelland	100%
1. Alliander Vorratsgesellschaft mbH	Brandenburg	100%
Alliander Netzbetrieb Hennigsdorf GmbH	Henningsdorf	100%
Alliander Stadtlicht Rhein-Ruhr	Hagen	100%
Bietergemeinschaft Hagen GBR	Hagen	100%

450connect GmbH	Köln	100%
Joint operations		
Utility Connect B.V.	Arnhem	50%
Other associates and joint ventures		
Plugwise Holding B.V.	Sassenheim	38%
Locamation Beheer B.V.	Enschede	48%
The New Motion B.V.	Amsterdam	21%
Ziut B.V.	Arnhem	53%
Ziut Advies B.V.	Arnhem	53%
Redstack B.V.	Sneek	33%
INNAX Group B.V.	Veenendaal	13%
Reddyn B.V.	Arnhem	50%
EDSN B.V.	Baarn	26%
Etriplus B.V.	Venlo	25%
Duurzame Energie Netwerken Gelderland B.V.	Arnhem	50%
Biogas Gelderland 1 B.V.	Arnhem	50%
Stadtbeleuchtung Hagen GmbH	Hagen	49%

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

Remuneration of the Management Board and the Supervisory Board

Remuneration of the Management Board and the Supervisory Board

Information on the remuneration of the Management Board and the Supervisory Board is presented in note [24] of the 2016 consolidated financial statements.

Arnhem, 6 March 2017

Management Board

Mr P.C. Molengraaf (chairman)

Mr M.R. van Lieshout

Ms I.D. Thijssen

Supervisory Board

Ms A. Jorritsma-Lebbink, chairman (with effect from 1 July 2016)

Mr G.L.M. Hamers (with effect from 7 April 2016)

Ms J.G. van der Linde

Mr B. Roetert

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

Retired in 2016

Mr E.M. d'Hondt, chairman (retired 30 June 2016)

Mr J.C. van Winkelen, vice-chairman (retired 7 April 2016)

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.

Independent auditor's report and assurance report

Introduction

Dear shareholders and Supervisory Board of Alliander N.V.,

We were engaged by the Supervisory Board as auditor of Alliander N.V. as of the audit for year 2016 and have therefore audited the financial statements 2016. The Supervisory Board was given a mandate hereto by the shareholders. Furthermore the Management Board engaged us to provide assurance on a selection of non-financial information in the Annual Report 2016.

Our reports in relation to both assignments, namely the auditor’s report on the financial statements 2016 and the assurance report on the non-financial information, are included below.

Independent auditor's report

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

Report on the financial statements 2016 included in the annual accounts

Our opinion

We have audited the financial statements 2016 of Alliander N.V., based in Arnhem. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The consolidated financial statements included in these annual accounts give a true and fair view of the financial position of Alliander N.V. as at 31 December 2016, and of its results and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The company financial statements included in these annual accounts give a true and fair view of the financial position of Alliander N.V. as at 31 December 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. The consolidated statement of financial position as at 31 December 2016.
2. The following statements for 2016: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows.
3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. The company balance sheet as at 31 December 2016.
2. The company profit and loss account for 2016.
3. The notes comprising a summary of the accounting policies and other explanatory notes.

Based 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 regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at € 10 million. The materiality is based on 0.75% of total expenses. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of € 0.5 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Alliander N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Alliander N.V.

Our group audit mainly focused on significant group entities Alliander N.V. and Liander N.V.

We have:

- Performed audit procedures ourselves at group entities Alliander N.V. and Liander N.V.
- Performed review procedures or specific audit procedures at other group entities.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board.
The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	Our audit procedures
Initial audit engagement	
Initial audit engagements involve a number of considerations not associated with recurring audits. Additional planning activities and considerations necessary to establish an appropriate audit strategy and audit plan include: • Gaining an initial understanding of the Group and its business including its control environment and information systems sufficient to make audit risk assessments and develop the audit strategy and plan; • Obtaining sufficient appropriate audit evidence regarding the opening balances including the selection and application of accounting principles; and • Communicating with the previous auditors.	After being appointed as the Company's auditors in 2015, we developed a comprehensive transition plan starting in the fall of 2015 to understand the connection between the Company's strategy, the related business risks and the way this impacts the Company's financial reporting and internal controls framework. Our transition plan included amongst others: • Close interaction with the previous auditor, including a process of file reviews and formal hand over procedures as prescribed by our professional standards; • Active knowledge sharing with the financial, risk and Internal Audit departments to understand their perspectives on the business, identified risks and key observations from their work; • Attendance of clearance meetings with senior management and the Audit Committee during the 2015 year-end financial closing and reporting process; • Evaluation of key accounting positions and audit matters from prior years; • Evaluation of management's documentation with regard to internal control to support obtaining an understanding of the financial reporting process and business processes; and • We discussed and agreed our audit plan with the Company's Audit Committee in May 2016 and we reported status, progress and key findings from our audit process regularly during the year.

Divestment Endinet Groep B.V. and acquisition of Aktivabedrijf Enexis Friesland B.V.	
The disclosures to these transactions are included in the accounting policies, note 1 and note 33. On 1 January 2016 Alliander sold the shares of Endinet Groep B.V. to Enexis Holding N.V. and purchased the shares of Aktivabedrijf Enexis Friesland B.V. from Enexis Holding N.V. with an additional payment by Enexis of € 365 million. The valuation of the exchanged networks determines the book gain on the divestment of Endinet Groep B.V. and the goodwill on Aktivabedrijf Enexis Friesland B.V. The fair value of Endinet Groep B.V. was determined at € 708 million, which resulted in a book gain of € 176 million. The purchase price of the shares of Aktivabedrijf Enexis Friesland B.V. amounts to € 335 million. External experts have supported Alliander N.V. in allocating the purchase price to the individual assets and liabilities.	As part of our audit procedures we reviewed the agreement between Alliander N.V. and Enexis Holding B.V. and other legal documents underlying the transactions. Furthermore we considered the Company's internal procedures with regard to the determination of the fair value. Assisted by our valuation experts, we tested the fair value of Endinet Groep B.V., the purchase price of the shares in Aktivabedrijf Enexis Friesland B.V. and the valuation of the acquired individual assets and liabilities, and assessed the key assumptions. We evaluated the competency and objectivity of the external experts. We also determined that the final settlement with Enexis with regard to these transactions has been completed. Furthermore we tested whether the disclosures comply with the requirements of IFRS 3, are adequate and provide sufficient insight into the valuation as per acquisition date.

Report on the other information included in the annual accounts

In addition to the financial statements and our auditor's report, the annual accounts contain other information that consists of:

- Management Board's Report
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements.
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of other information, including the Management Board's Report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Supervisory Board as auditor of Alliander N.V. on 29 July 2015, as of the audit for year 2016 and have operated as statutory auditor ever since that date. The Supervisory Board was given a mandate hereto by the shareholders.

Description of responsibilities for the financial statements

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements
Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

For an overview of our responsibilities we refer to NBA's website www.nba.nl (https://www.nba.nl/Vaktechniek/Verklaringen/voorbeeldverklaringen-voorbeeldbrieven/#standaardpassages_2016).

Rotterdam, 6 March 2017

Deloitte Accountants B.V.

J. Dalhuisen

Assurance report of the independent auditor

To: The Management Board of Alliander N.V.

The Management Board of Alliander N.V. ('the Company') engaged us to provide assurance on a selection of non-financial information in the Annual Report 2016 ('the Report'). Our engagement consisted of a combination of limited assurance (leading to a 'conclusion') and reasonable assurance (leading to an 'opinion').

We were engagement to provide limited assurance on the following chapters ('the reviewed information'):

- About this report (page 4-6)
- Our story in 2016 (page 7-10)
- About Alliander (page 11-32)
- Our results in 2016:
  - Customers (page 34-46)
  - Employees (page 47-56)
  - Shareholders and Investors (page 57-83)
- The impact cases on pages 40 and 56

Furthermore we were engaged to provide reasonable assurance on the following information ('the audited information'):

- The column "Results 2016" presented in the table on page 20-21 in the chapter 'Objective and Results'
- The summarized materiality assessment presented in the chapter 'About this report' on page 5 and the extensive materiality assessment presented in the chapter 'Materiality Test' on page 202-215.

Our conclusion
Based on our review procedures performed, nothing has come to our attention that causes us to believe that the reviewed information does not provide, in all material respects, a reliable and adequate presentation of the policy and business operations with regard to corporate social responsibility or of the events and performance of the company related to corporate social responsibility during 2016 in accordance with the Sustainability Reporting Guidelines version G4 of GRI and the internally applied reporting criteria as disclosed in the chapter 'Other information' of the Report.

Our opinion
In our opinion, the audited information is prepared, in all material respects, in accordance with the Sustainability Reporting Guidelines version G4 'comprehensive' of GRI and the internally applied reporting criteria as disclosed in chapter 'Other information' on page 222-223 of the Report.

The Report includes prospective information such as ambitions, strategy, plans, expectations and estimates. Inherent to this information is that the actual results may differ in the future and are therefore uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the Report.

Basis for our conclusion and our opinion

We conducted our review and our audit of the aforementioned information in accordance with Dutch law, including Dutch Standard 3810N 'Assurance engagements relating to sustainability reports'. A review is focused on obtaining limited assurance, while an audit is focused on obtaining reasonable assurance. Our responsibilities under this standard are further described in the 'Our responsibilities' section of this report.

We are independent of Alliander in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO) and other relevant independence requirements in The Netherlands. Furthermore we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our opinion and our conclusion.

Area of focus

The most significant area of focus we identified in this assurance assignment is identified below, including a disclosure on how we have tailored our procedures to address this area.

We have communicated the area of focus to the Supervisory Board and Management Board. This area is addressed in the context of our assurance assignment in relation to the Report as a whole and in forming our opinion and our conclusion thereon, and we do not provide a separate opinion on this area.

Area of focus	Procedures performed
One of the topics Alliander N.V. reports on [on page 26-30, 40, 56 and 222-223] relates to the social impact of Alliander's activities on the environment. Alliander applied the six capital model of the International Integrated Reporting Council (IIRC) as a basis for determining the relevant social impacts. Alliander has determined the social impacts based on the supply chain and has attempted to quantify these impacts in one unit (euro's) to the extent possible. As indicated by Alliander the identification, quantification and monetization of social impacts is still in the early stages of development. Therefore Alliander is obliged to make assumptions. We observe that the calculated consumer surplus in particular is strongly dependent on the assumptions used, the expertise contributed by the external advisors and is based on complex calculations. Furthermore the monetization of the impact on prosperity and well-being, the balance between social profit and loss and the attribution to the various participants in the energy supply chain, are not yet generally accepted. Therefore the public acceptance of the selected assumptions and calculation methods have been tested only in a limited manner. A summary of the key assumptions is presented in the 'Other information' on page 222-223 of the Report.	Our procedures regarding the area of focus consisted of evaluating the social impact measurement in chapter 'Onze impact' on page 26-30 and the impact cases on page 40 and 56. Based on interviews with employees and management of Alliander N.V. and the external advisors, we obtained an understanding of the methods and assumptions on which the calculations of the social impacts are based. Where Alliander used external advisors for performing the impact calculations (ic True Price), we obtained an understanding of the competency and objectivity of those advisors. We obtained an understanding of the calculations and performed recalculations for the key elements. For the reperformance of the consumer surplus calculation we used a model validation expert. For key assumptions as presented in chapter 'Other information' on page 222-223 of the Report we performed reconciliations with various sources such as sub-ledgers, external reports and research results. For prospective information or estimates used we reviewed the underlying data. Based on the procedures performed, we obtained and adequate understanding of the methods and assumptions used by management.

Responsibilities of the Management Board and the Supervisory Board

The Management Board of the entity is responsible for the preparation of the Report in accordance with the Sustainability Reporting Guidelines version G4 and the internally applied reporting criteria as disclosed in chapter 'About this report' , including the identification of stakeholders and the definition of material issues. The disclosures made by the Management Board with respect to the scope of the Report and the reporting policy are included in chapters 'About this report' and 'Other information' and on the website of Alliander.

Furthermore, the Management Board is responsible for such internal control as it determines is necessary to enable the preparation of the Report that is free from material misstatement, whether due to fraud or errors.

The Supervisory Board is responsible for overseeing the company's reporting process.

Our responsibilities

Our responsibility is to plan and perform the assurance assignment in a manner that allows us to obtain sufficient and appropriate assurance evidence for our opinion and our conclusion.

A review is focused on obtaining limited assurance. The procedures performed in obtaining limited assurance are aimed at the plausibility of information which does not require the same exhaustive gathering of evidence as in engagements focused on reasonable assurance. The procedures performed consisted primarily of making inquiries of management and others within the entity, as appropriate, applying analytical procedures and evaluating the evidence obtained. Consequently, a review engagement provides less assurance than an audit.

Our audit of the audited information has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud. We apply the 'Nadere voorschriften accountantskantoren ter zake van assurance opdrachten (RA/AA)' and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Report. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Limited assurance procedures

Our main procedures included the following:

- Performing an external environment analysis and obtaining insight into relevant social themes and issues, and the characteristics of the organisation.
- Evaluating the appropriateness of the reporting policies and their consistent application, such as assessment of the outcome of the stakeholder' dialogue and the reasonableness of estimates made by management.
- Interviewing management (or relevant staff) responsible for the sustainability strategy and policy.
- Interviewing relevant staff responsible for providing the information in the Report, carrying out internal control procedures on the data and consolidating the data in the Report.
- An analytical review of the data and trends.
- Investigating internal and external documentation, including examination of information on a test basis, to determine whether the information in the Report is reliable.

Reasonable assurance procedures

Our main audit procedures included the following:

- Identifying and assessing the risks of material misstatement of the Report, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluating the design and implementation and operating effectiveness of the systems and processes for data gathering and processing of information as presented in the Report.
- Evaluating the overall presentation, structure and content of the Report, including the disclosures.
- Investigating internal and external documentation, including examination of information on a test basis, to determine whether the information in the Report is reliable.
- Evaluating the underlying transactions and events

We determine the areas of focus in this assurance assignment in relation to the Report based on all matters as discussed by us with the Supervisory Board. We describe the areas of focus in our assurance report, unless such is prohibited by laws and regulations or in extraordinary rare situations where this is in the public interest.

Rotterdam, 6 March 2017

Deloitte Accountants B.V.

J. Dalhuisen

Opinion of the Alliander stakeholder panel

Dear reader of the report,

The stakeholder panel is delighted with Alliander's invitation to give feedback on the Annual Report 2016. This summary of our feedback is aimed at encouraging Alliander to bring the report even better into line with the needs of its stakeholders. We acknowledge that Alliander's annual report is eminently readable and has a clear structure. It is also extremely instructive in setting out the activities that Alliander is undertaking. The transparency provided is more than sufficient and the report gives a clear account of the policy pursued and the results achieved.

Materiality analysis

The annual report has been prepared on the basis of the materiality analysis. We recognise the selected subjects, and also see that these are extensively discussed in the accountability document, which forms part of the various stakeholder chapters. One aspect that should be made clearer in the report is where the dividing line lies between the most material subjects for stakeholders and how this selection was made. To this end, Alliander has included a comprehensive overview in the appendix to the report.

More ambition

Alliander plays an important role in our daily energy supply and the transition to a sustainable energy system. It was special to hear that the Management Board is making a tour of all municipalities in the company's service area to highlight the challenges arising from the energy transition. In our eyes, the company could show even more ambition regarding the envisaged route and also provide more insight into the steps needed to progress towards a sustainable future. From our talks with Alliander, we understand that this poses a dilemma. Alliander is keen to commit to the ambition, but is constrained by the regulated nature of its tasks and laws and regulations that are lagging behind society in this field.

Impact measurement

We also see that Alliander wants to make further steps in the field of impact measurement. In recent years, there has been growing attention for the quantification of impacts, i.e. the effects that society experiences as a result of an organisation's operations. We value Alliander's ambitions in this area and also appreciate the insights already provided in the accountability information. At the same time, this is a complex subject that is fittingly described as a journey in the report. As this journey progresses in the coming years, we advise Alliander to put the impact areas into sharper focus and to link them more closely to the company's strategy so that impact can also be used for operational control purposes.

Sustainable Development Goals (SDGs)

For the first time, Alliander has also provided insight into the Sustainable Development Goals (SDGs), the new goals identified by the United Nations member states as being key to promoting sustainable development and ending all forms of poverty by 2030. Alliander has made an initial selection of the goals based on their relevance to the company's operations. Our advice is to link the selected SDGs even more closely to the company's material subjects, as well as its risks and long-term objectives.

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.

Karen Maas - Scientific Director of the Executive CSR courses of ESAA, Erasmus University Rotterdam

Richard Liebrechts - Former partner at Ecorys and owner of Ripple-A

Rob van Tilburg - Royal Haskoning DHV

Brechtje Spoorenberg - KPN - Corporate Social Responsibility

The stakeholder panel that assists us with the annual report forms part of our structural stakeholder dialogue. We shared a draft version of the Annual Report 2016 with the panel members. They responded to this in writing and their input was discussed in further detail during a lunch meeting at our new circular building at Duiven on 25 January 2017. This meeting was also attended by our CFO Mark van Lieshout. The feedback was used to improve this report, and will also serve to further enhance the quality of our report. The stakeholder panel is independent. Perhaps you too would like to talk with us about the annual report or the themes confronting Alliander. We are open to dialogue and also regularly organise roundtable sessions with our stakeholders. Please contact us at communicatie@alliander.com.

Materiality test

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. The materiality study is twofold: the stakeholder groups assess the relevance of various themes and we make an internal assessment of the impact of these themes on the company.

In 2016, the existing materiality analysis was recalibrated based on input from diverse sources, including stakeholder dialogue reports and a media scan. The shortlist of 56 socially significant topics as drawn up in 2015 served as the starting point. The materiality score from the previous reporting year was consistently taken on board in the weighting. Next, we gauged the nature and scale of the impact of each selected theme for Alliander and its stakeholders. This list of topics was also submitted to and discussed with the stakeholder panel.

The outcomes from the roundtable session with stakeholders and the materiality of each topic were discussed with the Management Board. It was concluded that the topics stakeholders had identified as important largely corresponded with the key themes that Alliander is pursuing. The topics identified as most material to our stakeholders remained unchanged compared to the annual report 2015. However, there were some minor changes in the ranking of significance. Stakeholders also assigned higher rankings to Development & Training and Investment Policy. The 15 most relevant themes served as our guideline in the process of determining the content of the annual report and are extensively dealt with in the stakeholder chapters.

The process in 5 steps

After going through the entire Materiality Test in 2015, we performed a recalibration for the Annual Report 2016 based on the process below.

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. The overview of themes for 2015 was the starting point for the Annual Report 2016.

Stakeholder relevance

Based on a digital survey in 2015, 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 in 2016. 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 2015

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.

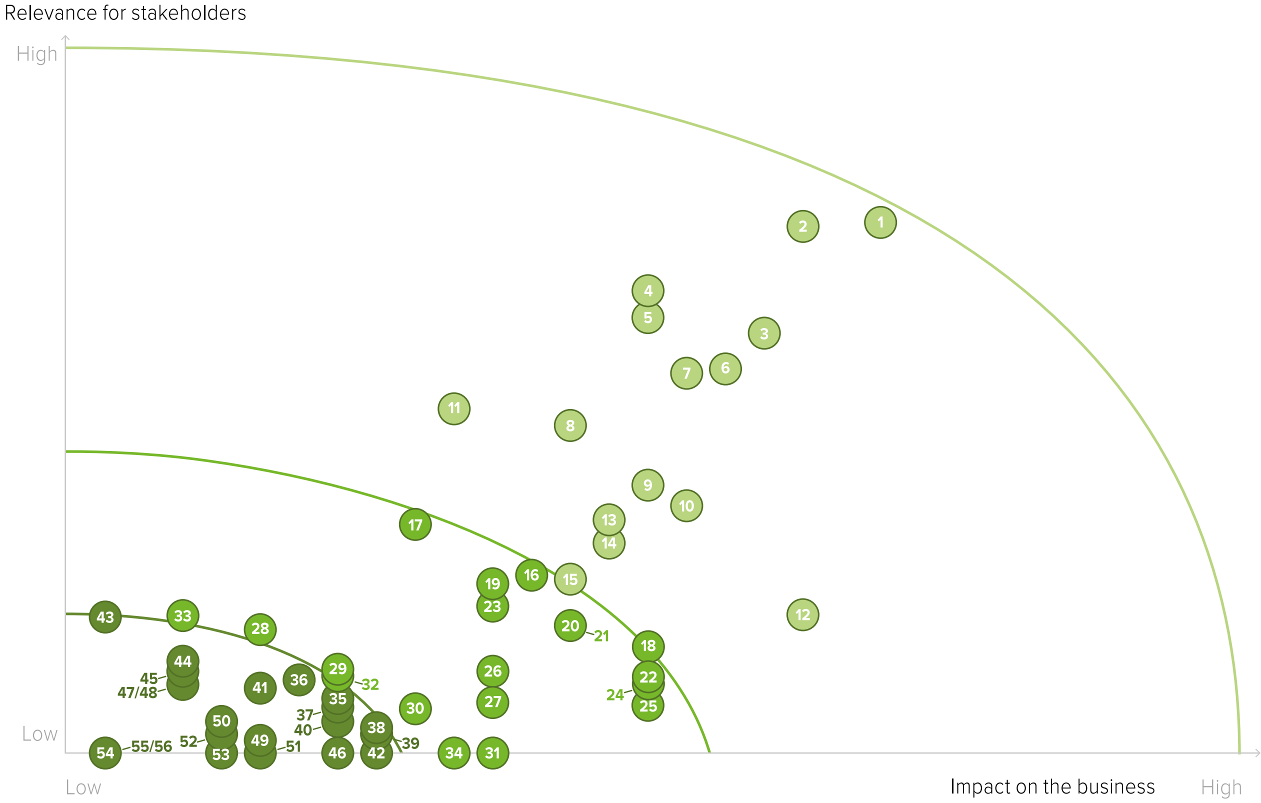
Step 3: GRI aspects with relevance for Alliander

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
	Training and development	Technology and organisations are changing continuously and at a rapid pace. Working has become lifelong learning.	Employees
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
	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
	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
	Investment policy	How big is the impact on Alliander if the economy is not doing well? What will happen regarding the need to renew operating assets and build new housing? Can Alliander use its position to contribute to social solutions for the crisis?	Shareholders and investors

Step 4: Materiality matrix

The combination of the relevance for stakeholders on the Y-axis and the impact of the themes on the organisation on the X-axis shows the theme's impact on the level of the organisation's social performance and thus the priority it has within the annual report. The materiality matrix provides a cross-section of the most material topics for Alliander's annual report.



1 - 15

1 Reliability of supply
2 Energy transition
3 Health & safety
4 Innovation
5 Energy generation
6 Smart networks
7 Regulation/Tariffs
8 Energy usage and CO2
9 Economic performance
10 Safe infrastructure
11 Transparency
12 Training and development
13 Customer satisfaction
14 Chain responsibility
15 Investment policy

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16 Corporate governance
17 Energy Storage
18 Riskmanagement
19 Executives' Pay (Standards) Act (WNT)
20 Financial policy compliance
21 Climat Change
22 Access to energy
23 Energy saving and services
24 Smart meters
25 Energy feed-in
26 Ethics
27 Environmental pollution and emissions
28 Compliance
29 Solid rating
30 Access to external financing sources
31 Privacy
32 Diversity
33 Marketing & Communication
34 Terrorism

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35 Depletion of natural resources
36 Circularity
37 Equal remuneration for men and women
38 Workplace well-being
39 Work-life balance
40 Quality of life
41 Anti-competitive behaviour
42 Supplier model/upstream
43 Stakeholder dialogue
44 Market presence
45 Labour market/ageing
46 Financial crisis
47 Public policy and lobby
48 Complaints handling
49 Biodiversity
50 Volunteering
51 Discrimination/bullying
52 Health and radiation, magnetic fields
53 Political instability
54 Trade union freedom and collective bargaining
55 Anti-corruption efforts
56 Forced or compulsory labour

Alliander subdivides the results of the materiality analysis into three categories.

Key themes

These are the 15 themes in the materiality matrix that are distinctive in the perception of a large group of stakeholders and for our performance. These themes are addressed at length in the annual report.

Corporate themes

These are themes that, viewed across a broad group of stakeholders, receive less priority. This concerns themes that are relevant to certain stakeholders for operational reasons or must be reported on for compliance purposes. They are dealt with to a limited extent in the annual report and explained further in the GRI Index if necessary.

Potential themes

These are themes to which most stakeholders currently assign less priority and that have a lower impact on the organisation. However, these themes may in future be given more weight and are being monitored and, where necessary, maintained by Alliander. For statutory reasons, some of these themes form part of the annual report or the explanation in the GRI Index.

Step 5: Implementation

The materiality of topics as determined by the Management Board provides the basis for the design, content and management of the annual reporting process. It is decided how the topics are worked out and how these are incorporated in the information-gathering process. Business units prepare the reporting process in cooperation with the responsible departments and set out the data validation and verification arrangements.

Further information on the reporting process can be found in 'About this report' and the GRI Index Table.

Material issues

This part of the report contains the elaboration of the issues that the material issues in connectionstand.

1 Reliability of supply

Input and relationships relevant for theme

Stakeholder expectation

Continuous supply of energy is of great social importance. Interruptions have a direct impact on the interests of our stakeholders. Customers want immediate information about interruptions, as well as an indication of the estimated outage time.

Our long-term objective

We aim for a consistently low electricity outage duration of at most 21 minutes per year.

Contribution from Alliander

We work daily to secure a continuous energy supply, both now and in preparation for the future. We invested € 680 million in the quality of our networks to increase their reliability. Our outage duration was 23.3 minutes in 2016.

Relationship with strategy

Reliability

Risks

Safety, Availability of technical staff in labour market, Insufficient long-term regulatory focus, Required competences, Facilitation of energy transition

Stakeholder information

Customers

2 Energy transition

Input and relationships relevant for theme

Stakeholder expectation
The energy transition comprises a shift away from fossil energy generation towards local renewable energy sources, thereby promoting the transition to a more sustainable society. Customers expect flexible and reliable networks, enabling them to feed in energy whenever they want.

Our long-term objective
Technical and economic developments make new solutions both feasible and necessary. Alliander wants to do its bit by facilitating the energy transition.

Contribution from Alliander
The energy transition demands new and smart applications for the energy networks. Alliander invests in these smart technologies to facilitate the transition to a sustainable society, while continuing to guarantee reliability of supply. In 2016, the amount of solar energy that customers fed into our network increased strongly. We also helped customers to start up renewable energy initiatives in their local communities. And we are engaging in innovative business activities to explore new markets.

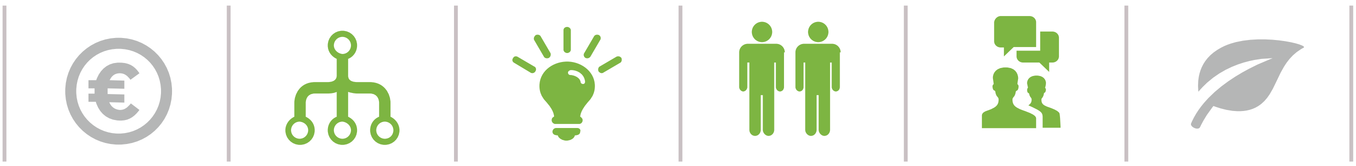
Relationship with strategy
Accessibility

Risks
Insufficient long-term regulatory focus, Privacy, Required competences, Facilitation of energy transition

Stakeholder information
Customers

3 Safe and healthy working practices

Input and relationships relevant for theme



Stakeholder expectation

Safe working practices are vital for all stakeholders. Employees expect a working environment where they can concentrate and work safely. Customers expect us to guarantee their safety during the performance of our work.

Our long-term objective
Everyone safely home! That is Alliander's safety ambition. The objective is an LTIF (lost time injury frequency) of 2.2 or lower. In addition, Alliander promotes a culture where safety comes first. This culture can be described as: “Alliander wants to find out which safety rules are considered important, listen and learn, and take responsibility. The responsibility for safety and regulatory compliance mainly rests with the senior management. Safety is a top-of-mind concern and that is appreciated”.

Contribution from Alliander

We take initiatives to promote safety and have developed a safety programme aimed at realising intrinsically safe working practices. In 2016, we engaged in a safety dialogue with employees, introduced improvements in the workplace and trained managers and employees to recognise and report risky situations more quickly. A new safety approach was rolled out further in 2016. The LTIF amounted to 2.0.

Relationship with strategy

Reliability

Risks

Safety

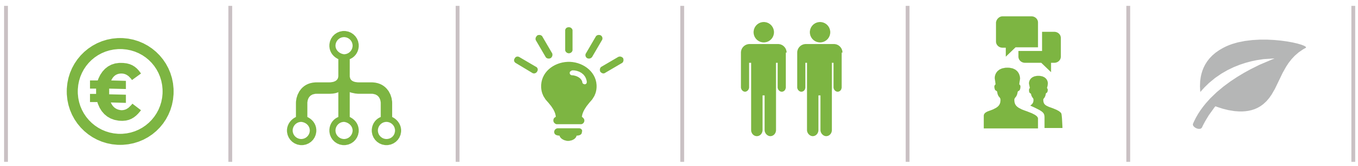
Stakeholder information

Employees

Customers

4 Innovation

Input and relationships relevant for theme



Stakeholder expectation

Alliander wants to respond actively to the changing energy landscape and future developments to assist the energy transition. This includes embracing new technologies and solutions. Customers expect us to help them make new energy choices.

Our long-term objective

We want to gain experience in order to realise the energy system of the future with the smartest solutions possible for our stakeholders. We do this by exploring new markets and encouraging market parties to pursue and implement sustainable innovations.

Contribution from Alliander

In 2016, we set up testbeds in various places such as Heerhugowaard, where we are trying out and gaining experience with smart energy solutions, together with customers and other partners. We also engage in business activities in the field of electric mobility and help customers make responsible energy choices.

Relationship with strategy

Accessibility

Risks

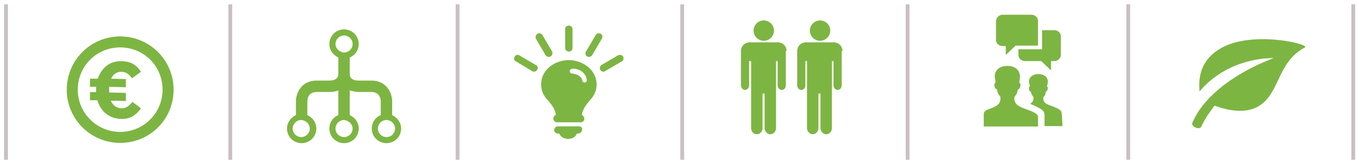
Required competences, Insufficient long-term regulatory focus

Stakeholder information

Customers

5 Energy generation

Input and relationships relevant for theme



Stakeholder expectation

What role should network operators have in the promotion of renewable energy generation, particularly in relation to the ambitious Paris climate objectives. Customers need a flexible energy network that supports more renewable energy generation. Consumers and businesses are increasingly taking renewable energy generation into their own hands. Alliander wants to discuss with its stakeholders what role network operators should play.

Our long-term objective

Through the ongoing digitisation of our infrastructure, we enable renewable generation at local level. We also invest in the greening of our CO2 footprint.

Contribution from Alliander

We participate in testbeds and partnerships in order to learn from cutting-edge developments such as 'Energiekoplopers', a sustainable energy project in Heerhugowaard. Moreover, we are developing new business activities to explore and unlock the energy system of the future. We support customers in making choices, invest in alternative infrastructures and are digitising our networks. In 2016, we greened part of our operations for the first time with renewable energy generated in the Netherlands.

Relationship with strategy

Reliability, Accessibility

Risks

Insufficient long-term regulatory focus

Stakeholder information

Customers

Shareholders and investors

6 Smart networks

Input and relationships relevant for theme

Stakeholder expectation

The energy infrastructure must be capable of matching fluctuations in supply and demand for energy in a reliable manner. Customers expect a network that enables them to feed in energy without any problem. They also expect us to make the network more reliable and transparent by means of innovative technology.

Our long-term objective

Alliander's objective is to realise 95% of its most important digitisation programmes within Alliander. The aim of these programmes is to construct intelligent networks and offer smart meters.

Contribution from Alliander

We are working at various locations to make our energy networks smarter. These initiatives include the large-scale roll-out of smart meters and the implementation of ICT applications and sensors for managing the flexible flow of energy. Smart networks support a more efficient use of capacity and infrastructure, and are also more reliable. By expanding our smart energy networks, we are laying the groundwork for the digital services of the future. Unfortunately, we did not achieve our objective and must carefully assess how these efforts can be continued more effectively in the coming year.

Relationship with strategy

Accessibility, Reliability

Risks

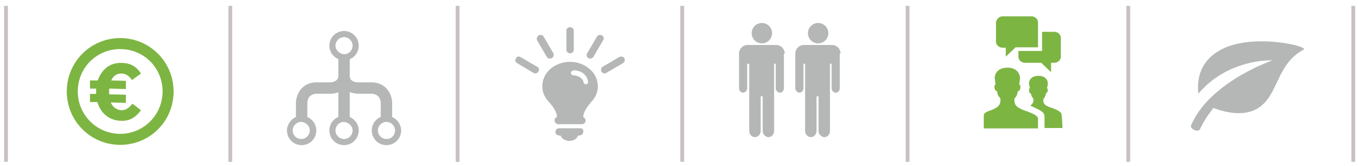
Privacy of energy data, Cyber crime

Stakeholder information

Customers

7 Regulation and tariffs

Input and relationships relevant for theme



Stakeholder expectation

Network operators charge costs to their customers. These tariffs are regulated and set by our regulator, the Authority for Consumers & Markets (ACM). Customers want to have a grip on their energy costs, as well as predictable network operation tariffs.

Our long-term objective

Continuously outperform the sector in terms of costs and operational excellence. In addition, Alliander wants to realise solid financial results.

Contribution from Alliander

In 2016, we devoted attention to cost control, adhered to a careful investment schedule and expenditure pattern, and closely monitored our position in the national benchmark of energy network operators. In addition, we worked on our strategy to keep the social costs for energy as low as possible, also in the future. In 2016, the network operation tariffs at Liander for our customers were comparable with those in the previous year. The tariffs would have been lower if they had not been taxed with sharply higher regional sufferance tax levies.

Relationship with strategy

Affordability

Risks

Insufficient long-term regulatory focus, Facilitation of energy transition

Stakeholder information

Customers

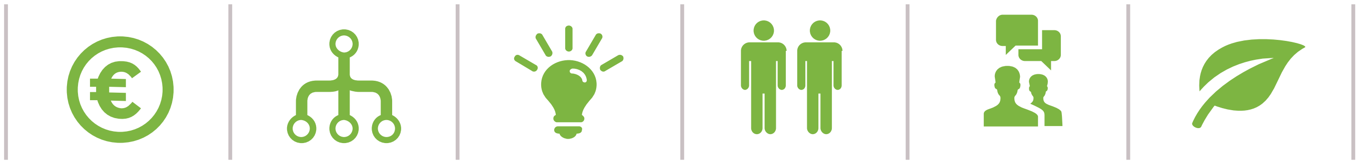
Shareholders and investors

Financial Statements

Strategy

8 Energy usage and CO_2

Input and relationships relevant for theme



Stakeholder expectation

Climate change is a global problem. Stakeholders expect an active climate policy aimed at lower emissions throughout the entire energy chain.

Our long-term objective

We aim to reduce our CO2 emissions.

Contribution from Alliander

Alliander engages in various activities to reduce its CO_2 emissions, also by greening our energy usage through the procurement of Guarantees of Origin for renewable energy generated in the Netherlands. We are working within the Dutch network operator community to create a uniform standard for calculating our footprint. Our CO_2 emissions in 2016 were lower than in the year before.

Relationship with strategy

Accessibility, Affordability

Risks

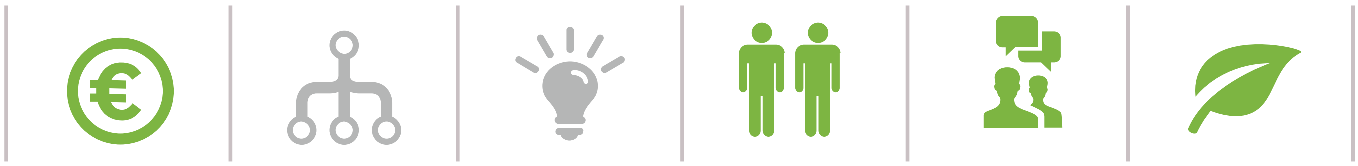
Insufficient long-term regulatory focus, Facilitation of energy transition

Stakeholder information

Shareholders and investors

9 Economic performance

Input and relationships relevant for theme



Stakeholder expectation

Stakeholders expect a clear picture of the value that Alliander realises and stable financial results.

Our long-term objective

We want to realise value for our stakeholders and contribute to a better society. We have set targets for our ratings, FFO/Net debt ratio and solvency and monitor their progress.

Contribution from Alliander

In 2016, we created sustainable value for our stakeholders. Increases in the salaries under the collective labour agreement, investments in networks and buildings, procurement expenditures, employee volunteering, social sponsorship and dividend for providers of capital demonstrate our broad economic and social contribution.

Relationship with strategy

Affordability

Risks

Financial risks

Stakeholder information
Shareholders and investors

Financial Statements

Regional information

10 Safety and infrastructure

Input and relationships relevant for theme

Stakeholder expectation
Customers expect us to ensure a safe infrastructure and to guarantee their safety during the performance of our work.

Our long-term objective
Everyone safely home! That is Alliander's safety ambition. This applies both to our own people, and to the quality and reliability of our installations. That is why we continuously invest in the reliability of our infrastructure. Our focus here is on the top risk-mitigating projects, including 25 specifically identified projects.

Contribution from Alliander
In 2016, Alliander invested about € 680 million in the reinforcement, digitisation and maintenance of its networks. We completed 48% of our most important projects. Furthermore, our staff received calamity and incident response training in order to be well-prepared for unforeseen events that impact on, for instance, our infrastructure.

Relationship with strategy
Reliability

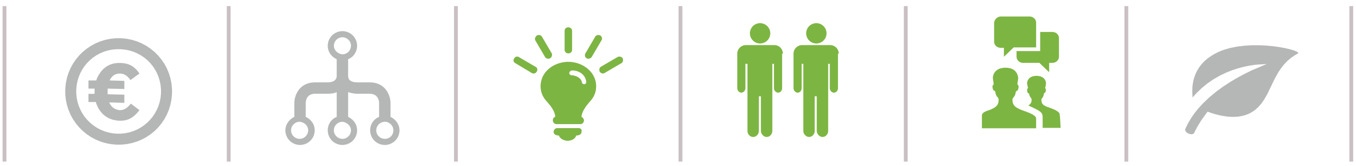
Risks
Safety

Stakeholder information
Employees

Customers

11 Transparency

Input and relationships relevant for theme



Stakeholder expectation
Stakeholders request Alliander to be open about its intentions, operations, decision-making and dilemmas.

Our long-term objective

We aim to gain and retain a leading position in the Transparency Benchmark and apply GRI-G4. We conduct an active dialogue with a broad group of stakeholders and organise a stakeholder panel.

Contribution from Alliander

Alliander is a stakeholder-driven company and asks stakeholders for their feedback on plans. In the past year, Alliander ended in 1st place in the Transparency Benchmark of the Ministry of Economic Affairs and won the FD Henri Sijthoff Award. This year, too, an external stakeholder panel provided extensive input for our annual report. Moreover, our annual report adheres to the latest GRI-G4 guidelines. In 2016, we continued developing our corporate websites. Online dialogues were conducted about various material themes, including the energy transition. We apply the principles of the Dutch Corporate Governance Code wherever relevant.

Relationship with strategy

Reliability, Affordability, Accessibility

Risks

None

Stakeholder information

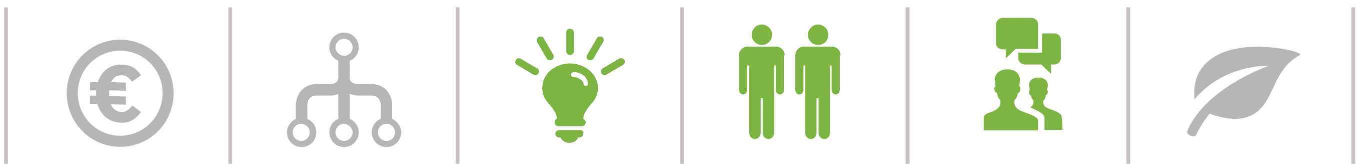
Corporate governance

About this report

Materiality Test

12 Training & Development

Input and relationships relevant for theme



Stakeholder expectation

Alliander is a company that works hard to promote training and development. Employees are actively encouraged to develop their professional and personal skills with a range of training and development opportunities. This includes safety courses wherever relevant.

Our long-term objective

Alliander needs well-equipped professionals who contribute to the energy issues of today and tomorrow.

Contribution from Alliander

To find solutions for the energy issues of today and tomorrow, we invest a lot. In technology and, above all, in our people. We offer excellent compensation and benefits. And we offer excellent training. To help our employees get the best out of themselves. That is good for them and good for the company. Our professionals work on challenging projects. So what gives them energy? Doing a meaningful job that really matters to society. We listen to our customers and invite them to come up with innovative and smart ideas. That way, we are able to deliver even better solutions for the energy issues of today and tomorrow.

Relationship with strategy

Accessibility, Reliability

Risks

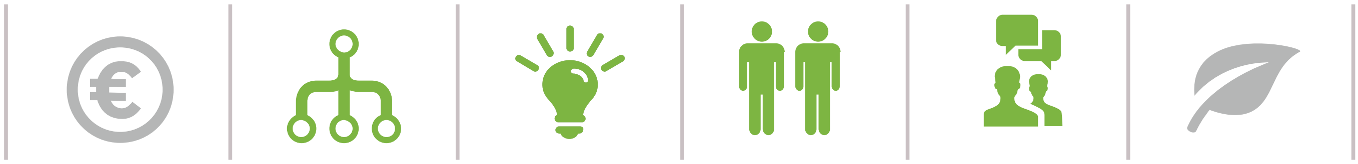
Availability of technical staff in labour market, Required competences, Facilitation of energy transition

Stakeholder information

Employees

13 Customer satisfaction

Input and relationships relevant for theme



Stakeholder expectation

Customers count on excellent service, communication and handling of interruptions, questions and complaints. Municipalities and business customers expect a clear point of contact and that we deliver on our commitments.

Our long-term objective

Our consumer and business customer satisfaction ratings remain higher than the national benchmark of Dutch network operators.

Contribution from Alliander

We work daily to secure a continuous energy supply, both now and in preparation for the future. The quality of our services and communications vis-à-vis business customers and municipalities was improved. Our digital services continued to improve thanks to our 24/7 online accessibility and short response times. The website experience for consumers and business customers was also further enhanced. Our performance was above the benchmark for consumers, and just below the benchmark for business customers.

Relationship with strategy

Reliability

Risks

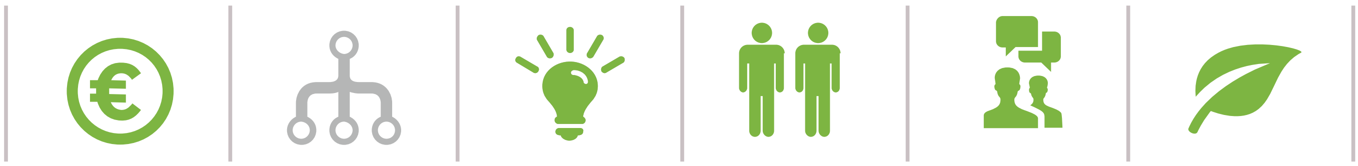
None

Stakeholder information

Customers

14 Supply chain responsibility

Input and relationships relevant for theme



Stakeholder expectation

With an annual procurement volume of about € 900 million, we are a major purchaser of products and services in the Netherlands. Stakeholders expect us, together with our suppliers, to ensure that our procurement is as sustainable as possible. If we can persuade our suppliers to take sustainability as seriously as we do ourselves, we can generate a significant positive impact through our supply chain.

Our long-term objective

We actively seek to improve our supply chain performance. This includes making plans with our suppliers to reduce CO_2 emissions and promote responsible operations. Target is at least 80% of our procurement volume is socially responsible. In addition, all suppliers must meet the Alliander Code of Conduct.

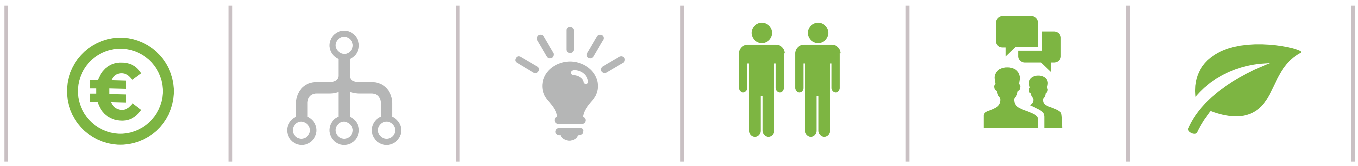
Contribution from Alliander
As well as highlighting our compulsory Code of Conduct to all suppliers, we purchased 71% of our procurement volume based on Socially Responsible Procurement (SRP) statements in 2016. These SRP statements help us to achieve our socially responsible procurement objective in the Netherlands and back up our sustainability efforts among our suppliers.

Relationship with strategy
Reliability, Affordability, Accessibility

Risks
None

Stakeholder information
Shareholders and investors

15 Investment policy / Adherence to financial policy

Input and relationships relevant for theme


Stakeholder expectation
Stakeholders expect a clear picture of the value that Alliander realises and stable financial results. Sustainable value creation is an increasing priority for them.

Our long-term objective
The key aim of our financial policy is to at least maintain a solid A rating profile. This is vital to implement our strategy and play a facilitating role in the energy transition.

Contribution from Alliander
In 2016, we created sustainable value for our stakeholders and retained our solid A rating. In the interests of our providers of capital, we seek to strike the right balance between an adequate shareholder return and the protection of bond holders and other providers of debt capital, while preserving the flexibility to invest and grow.

Relationship with strategy
Affordability

Risks
Financial risks

Stakeholder information
Shareholders and investors

Financial Statements

Regional information

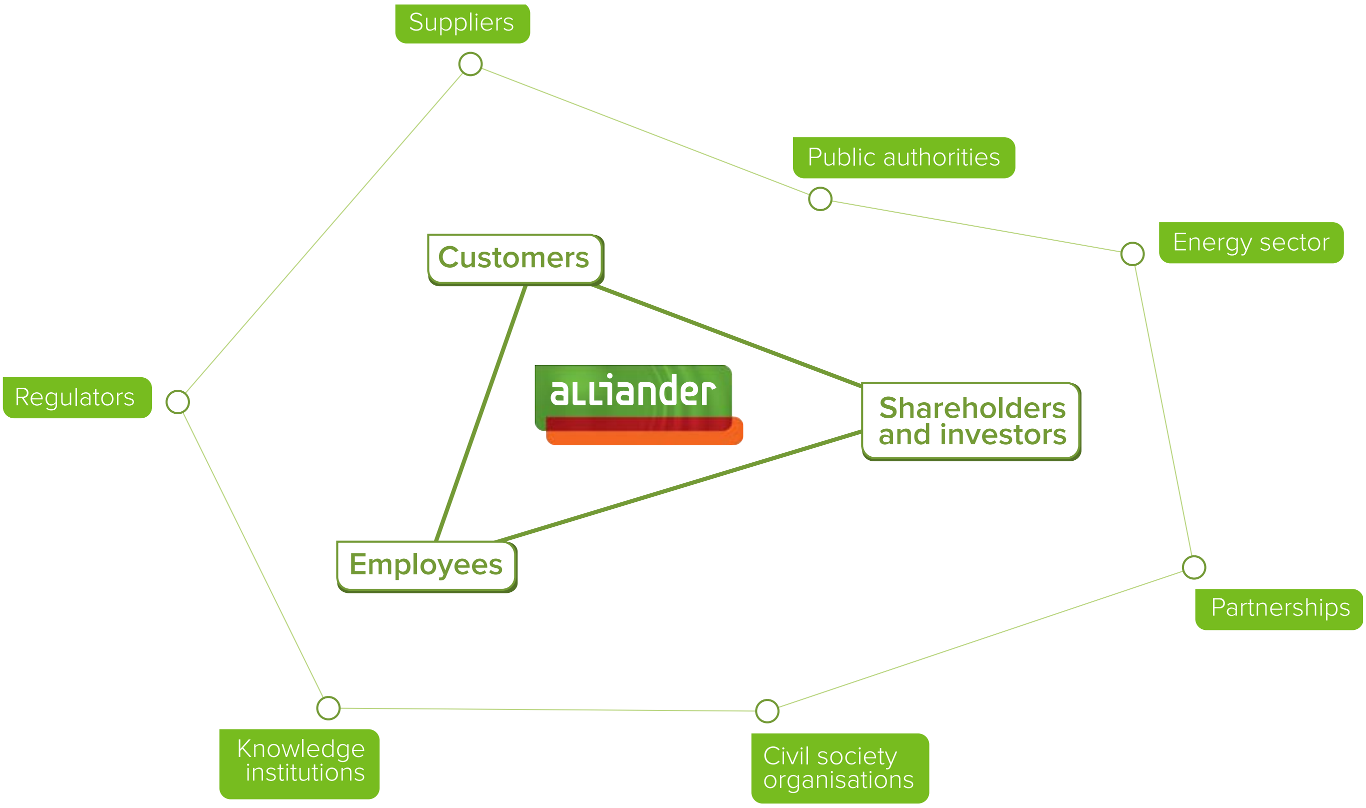
Interaction with stakeholders

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.



Contact opportunities

We conduct the dialogue with stakeholders on both an ad hoc and a structured basis. This includes the organisation of customer panels and shareholder consultations as well as meetings with the Works Council. Supplier days, knowledge and partner meetings and participation in network organisations are important forms of contact with stakeholders. We are in regular contact with politicians in the Netherlands and at the European institutions, and we also liaise with regulators.
In 2016, the Management Board embarked on a tour of all municipalities and provinces in our service area in order to engage in a dialogue about the challenges of our energy system of the future. We spoke with many local government representatives to discuss ambitions and choices in the light of climate objectives and the energy transition.

Interaction with stakeholders

Stakeholder	Organisation or platform	Type of interaction	Items for discussion	Reference
Stakeholder 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 Energy cooperatives	Dialogue / relationship management (various forms)	Samenwerking, dialoog, verbeteren dienstverlening	Customers
Stakeholder Employees	Employee survey Employee representation Young employee network - Tension Female employee network - Lianne GBLT network - Pride Staff Association WENb employers' association Foundation Trade unions	Quantitative survey (quarterly) Formal consultation (monthly) Dialogue / workshops / meetings Ditto Ditto Employee association Employee volunteering Periodic consultation on compensation & benefits	Participation, dialogue 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	Periodiek overleg en verslag over financiële prestaties (periodiek)	Accountability and commentary	Financial
Authorities	Central government and European Union	Consultation, collaboration and projects (projects, ad hoc)	Expression of interests and (pro-) active dialogue	Shareholders and investors
	Provinces and municipalities	Consultatie, samenwerking, projecten (o.m. IPO en VNG)	Alignment of climate and environmental plans and projects	Shareholders and investors
Politics	Both houses of Dutch parliament, ministries, States General	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 Netherlands Authority for the Financial Markets Dutch Data Protection Authority EU Regulators	Periodic meetings on current topics and issues Standard and ad hoc requests for information	Inform, exchange and explain	Customers
	State Suerpvision 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 Tennet Employer Association WENb	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 conslutations SRP consultations Overleg verantwoord inkopen	Collaboration, relationship management, dialogue	Financial
Knowledge institutions	Educational institutions and knowledge organisations Sustainable Electrical Energy Center of Expertise	Collaboration with Radboud University Nijmegen, HAN University of Applied Sciences, Regional Training Centres. Universities of Technology in Delft, Eindhoven and Twente.	Knowledge exchange and partnerships	Employees

Media	National, regional 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	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	Amsterdam Economic Board, Economic Board Arnhem Nijmegen European Energy-Information Sharing & Analysis Centre Foundation rural energy services Global Gasnetwork Initiative Global Intelligent Utility Network coalition Global Smart City & Community Coalition Global Reporting Initiative Groene Zaak Kenniskring Amsterdam Hier Klimaatverbond Nederland Milieu Centraal MVO Nederland Nederlandse vereniging duurzame energie Open compliance and ethics group Smart Energy Collective Stichting de Energiebank Stichting USEF The Open Global Data Management Community Urgenda Vereniging Eigen Huis Vereniging Nederlandse Gemeenten Woman Capital World Economic Forum	Board membership, meetings, sponsoring, strategic partnerships	Collaboration with knowledge institutions, businesses and authorities, sustainability promotion, new models for innovation and societal development	Customers

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 2016, 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 quantitative materiality test. In 2016, we recalibrated the materiality of the themes based on qualitative stakeholder information.

Stakeholders tend to select themes that have a bearing on our operational activities. These include safe working practices, security of supply and employee training & development. In addition, they opt for themes enabling Alliander to distinguish itself in the future, such as the energy transition, energy saving and innovation. These outcomes were also discussed in the Management Board, which concluded that the topics indicated by the stakeholders are largely consistent with the efforts Alliander is undertaking on behalf of its stakeholders. A stakeholder panel is actively involved in determining the contents of the Annual Report and shared its impressions of the draft Annual Report 2016 directly with the Management Board.

Performance benchmark

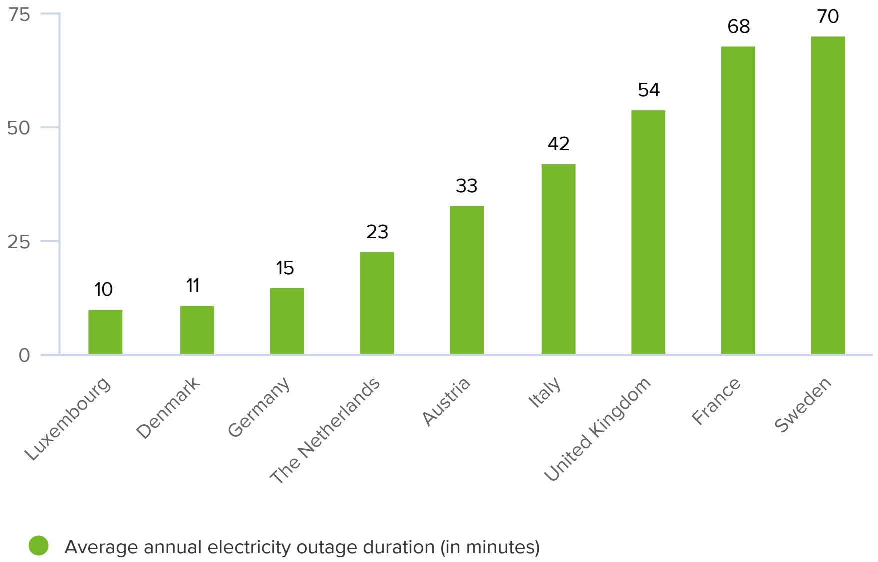
We look critically at our own performance and we benchmark it against that of other companies, both in and outside the energy sector. We do so mainly to learn and identify promising opportunities. Some benchmark data are explained below.

Benchmark within the energy sector

Outage duration

Our networks are highly reliable. The electricity outage duration at Liander averaged 23.3 minutes in 2016, higher than the national average of 21 minutes in 2016. The gas outage duration for customers in the Liander service area averaged 85 seconds in 2016, also lower than the national average in 2015 (129 seconds).

International benchmark for outage duration



National benchmark

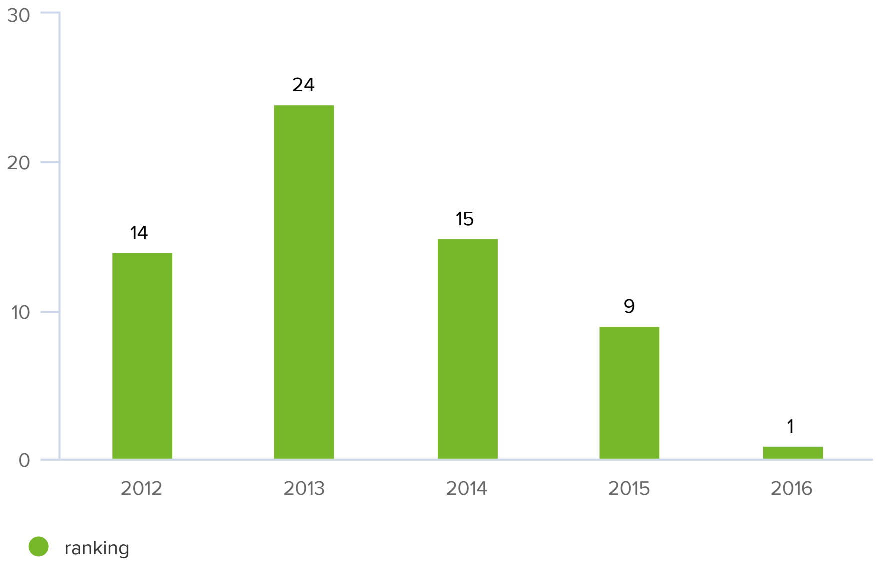
Absenteeism

Absenteeism at Alliander came to 4.1% in 2016 (2015:3.8%), compared with a national average of 3.8% in 2016.

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 2016, Alliander ended in 1st place (2015: 9th) and was the highest-placed company in the energy sector.

Transparency benchmark



Great Place to Work

Alliander has the ambition to be a top-class employer for its current and future employees, so that their expertise is retained on a permanent basis. Only an objective assessment can really tell us whether Alliander is a top-class employer. This 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 list.

SWOT

Strenghts

- High reliability of energy supply
- Solid financial position
- Good employment practices
- Sustainable partner

Weaknesses

- Technical work capacity
- Limited speed of adaptibility of business processes
- High CO_2-emissions related to energy transportation

Opportunities

- Investment in 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
- Cybercrime
- Changing legislation and regulations
- Attract the necessary skills in the future

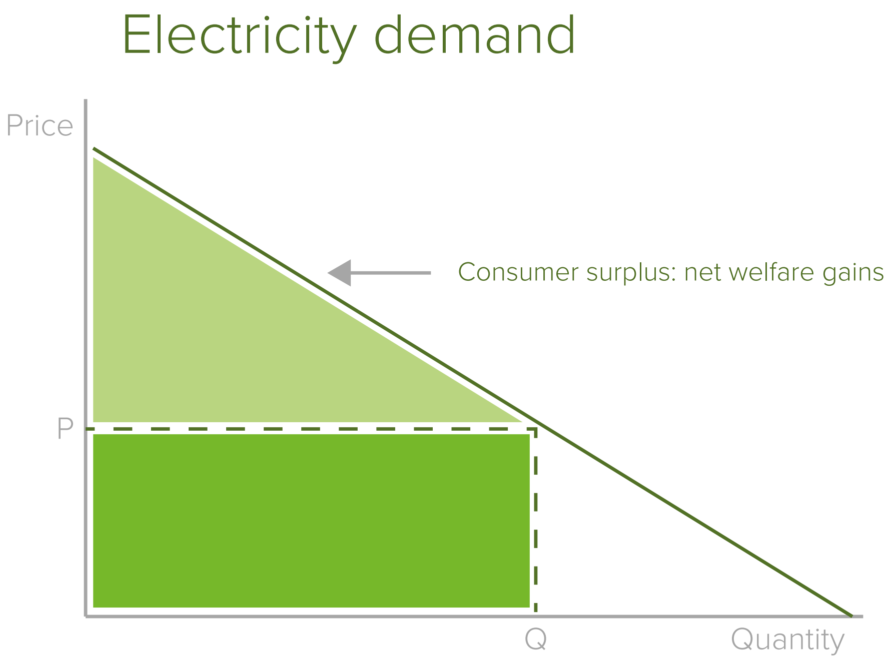
Alliander is an attractive employer, which operates as a sustainable partner in the energy market. We see opportunities in cooperation in local and regional level. In 2016, we also therefore our relationship with municipalities intensified in our service area. We work together on energy issues of today and tomorrow. In implementing our strategy we encounter a number of challenges to our organization. For example the shortage of technical capacity for work. For this, we are now including an extensive recruitment campaign began to find enough employees who can perform the work. We further see that we cannot act quickly enough, for example customer questions. We work on operational excellence. Our CO2 emissions are finally high, partly due to grid losses incurred in transporting energy. With a large number of activities, we aim to be carbon neutral by 2023. Finally, we see also necessary threats, such as the unpredictability of the (speed) energy, cybercrime and changing regulations. These threats and how we anticipate, be extended described in the risk information.

Most important impact measurement and reporting criteria, principles and assumptions

When measuring and reporting on our impact, we use a number of criteria, principles and assumptions of which the most important will be described here. Online contains a detailed explanation of the impact of Alliander. These are in addition to the criteria, principles and assumptions also the explained calculation methodologies.

Most important criteria
For the distribution of impacts is used the value model of the International Integrated Reporting Council (IIRC), which divides impacts in six capitals: Financial, Produced, Intellectual, Natural, Social and Human Capital. For now, we have quantified the financial, Produced and Natural capital. In the coming period we will continue to quantify the remaining capital.
The relevant impacts that we have identified, are reported as fully as possible.
Impacts are quantified in terms of money (euros), to estimate the sum of the individual effects on prosperity and welfare. We use a broad definition of prosperity, which we have taken our most relevant impacts identified in prosperity. Under a broad definition of prosperity is the prosperity of people now and later, understood in the Netherlands and abroad.
The methods used to calculate the impacts are based on techniques that are common in the scientific or social practices, including the Natural Capital Protocol NCC (2016), Environmental management - Life cycle assessment - Principles and framework ISO (2010) and the General guidance for social cost-benefit analysis of the CPB. As indicated, further details are available online.
Since Alliander operates in a regulated market and is part of a broader value chain, found by the described attributiewijze attribution to the contribution of Alliander below instead. The wealth effects are conservatively estimated as there is a choice between several equally reasonable assumptions. Two assumptions are as reasonable as they are equally acceptable on the basis of the criteria used and the scientific practice and are equally plausible in the eyes of experts. That means that if there are several equally reasonable assumptions are possible, that assumption is chosen that results in the lowest estimate for the wealth effect.

Main principles and assumptions
Attribution
Impacts where multiple players in the chain are responsible, be attributed to Alliander on the basis of its gross added value in the chain. The gross value added is calculated as turnover minus the consumption of products (both goods and services) in production, valued at purchase prices. Impacts that Alliander realizes independently be fully allocated to Alliander.
Financial capital
The financial impacts are viewed from a cash flow perspective, or from the direction of the company: cash outflows from Alliander have positive impacts on society and vice versa include the negative impacts of the cash inflows for Alliander.
Produced capital
The welfare value of the energy transport is calculated on the basis of the consumer surplus. This is the added value that customers are theoretically willing to pay above the regulated price for a service or product. The consumer surplus is currently the most common way and used for the determination of the economic value, as well as for free-regulated markets. The consumer surplus covers all price elements in the energy chain, thus includes taxes and prices for supply and transport of energy. To be allocated as produced capital amounts shown relate to at Alliander (economic) part in the energy chain. The average effect of gas and power failures for Netherlands is included in this estimate, because the price elasticity is based on the demand for energy as it is (including failures). The specific effect of gas and power failures for Alliander in 2016, given the relatively limited impact, not included.
In the adopted economic model, assumptions were made about the price elasticity. It is assumed that the curve is linear indicating the price elasticity for gas and electricity. This last assumption gives a conservative estimate of the consumer surplus. With the help of the figure below the consumenternsurplus is made visually.



To determine the slope of the curve, which has an impact on the consumer surplus is based on a study by CE Delft (2012). The contribution of energy to consist of business customers prosperity, in order to avoid double counting, only from the 'revenue' section, without adding the producer surplus of customers.
Natural capital
Alliander is partially responsible for the CO_2 emissions of electricity and gas to be transported through our network. The impact includes the measurement of the CO_2 emissions associated with the direct operations and those of the chain. Emissions in the chain are attributed to Alliander on the basis of gross value added.
It is assumed that the electricity (which is the ratio of energy from oil, gas, coal and nuclear power) of the energy we supply is equal to the national electricity mix.
The social cost of a tonne of CO_2 equivalent have been estimated based on a study by the US Inter-Agency Working Group of the EPA (2013). This study is in our view still relevant because most of the effects of climate change in the future take place and thus the cost of a tonne of CO_2 equivalent have not changed between 2013 and 2016.

Five-year summary

Five-year summary

€ million	2016	2015	2014	2013	2012
Result					
Revenue	1,584	1,540	1,594	1,744	1,674
Total income	1,723	1,680	1,729	1,846	1,772
Total operating expenses	-1,516	-1,341	-1,245	-1,389	-1,378
Operating profit	207	339	484	457	394
Profit after tax	282	235	323	288	224
Balance sheet					
Net working capital	-145	-211	-172	-94	-96
Property, plant and equipment	6,529	5,899	6,218	6,012	5,821
Total assets	7,735	7,726	7,672	7,548	7,414
Equity	3,864	3,687	3,579	3,375	3,203
Total interest-bearing debt	1,564	1,668	1,775	1,895	1,896
Total financing	5,428	5,355	5,354	5,270	5,099
Capital expenditure on non-current assets	690	577	572	575	583
Cash flows					
Cash flow from operating activities	376	513	623	683	545
Cash flow from investing activities	-232	-492	-410	-493	-498
Cash flow from financing activities	-185	-99	-201	-135	-53
Free cash flow	144	21	213	190	47
Ratios					
Non-current interest-bearing debt as % of total interest-bearing debt	95%	72%	91%	85%	100%
ROIC	3.5%	4.9%	6.3%	7.6%	6.9%
FFO/Net debt	26.6%	28.1%	34.0%	38.7%	30.1%
Interest cover	8.3	7.6	7.6	8.0	6.0
Equity as % of total assets less deferred income (solvency)	58.5%	55.7%	53.6%	51.1%	49.5%
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)	3,109	3,100	3,078	3,063	3,087
New connections (x 1,000)	37	31	26	29	31
Cables laid (km)	859	918	816	904	1,160
- Gas					
Active connections as at 31 December (x 1,000)	2,510	2,671	2,658	2,649	2,644
New connections (x 1,000)	21	19	18	20	22
Mains laid (km)	151	159	136	160	196
- Volumes transported					
Electricity (GWh)	29,990	29,882	29,936	30,314	30,522
Gas (million m3)	6,367	6,012	6,115	7,790	7,461
- Other					
Number of disconnections (consumer and business market)	7,468	9,465	10,310	12,742	12,364
Facilitated supplier switches (x 1,000)	973	956	929	930	781
Annual electricity outage Liander (minutes)	23.3	21.9	19.9	24.0	24.5
Average number of permanent staff (fte)	5,621	5,572	5,547	5,878	5,675

1 The figures for 2012 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.

March 2017

Alliander N.V.

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

Publication Alliander N.V.

Disclaimer

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