Alliander Finance B.V.

Annual Report
for the year ended
31 December 2010

PricewaterhouseCoopers Accountants N.V.
For identification purposes only

CONTENTS

Report of the Management Board

Financing

Alliander Finance has had a Euro Commercial Paper (ECP) programme of € 1.5 billion and a Euro Medium Term Notes (EMTN) programme of € 3 billion, which was transferred to Alliander N.V. on 15 June 2010. However, the already issued bonds remain within Alliander Finance B.V. till maturity.
In June 2010 Commercial Paper was drawn to € 50 million and was repaid in September 2010. The outstanding amount of the Euro Medium Term Notes as per 31st of December 2010 is € 2,050 million.
In March 2010 the existing revolving credit facility (RCF) of € 875 million (maturing in November 2011) was unwound.

Results 2010

In 2010, Alliander Finance reported a loss after tax of € 6.0 million (profit in 2009: € 3.2 million). The loss was primarily the result of the unwinding of derivative financial instruments of € -3.0 million (2009: € 2.8 million), the interest rate spread between the interest income from the Alliander group and interest expenses related to the EMTN programme € -1.6 million (2009: € 9.2 million) and the write-off of the capitalized arrangement fee for the RCF and the fees paid in 2010 for the RCF, which are both reported under other financial expenses and amount to € -3.5 million (2009: € -6.0 million).

Cash flows and liquidity

The cash flow from operating activities resulted in a cash outflow of € 2 in 2010 (2009: € 1,241.8 million).
In 2010 the cash flow from financing activities has not resulted in a cash flow (2009: € 1,242.2 million).

Risk factors

Alliander Finance is exposed primarily to foreign exchange and interest rate risks. The main risks of Alliander Finance are described in note 14.

Personnel

The company employs no staff. All staff working on behalf of Alliander Finance is employed by Alliander N.V..

Outlook

In the past Alliander Finance B.V. has acted as the financing vehicle of the Alliander Group. The Alliander Group has a financial policy to maintain an A-Creditrating profile. In line with the policy adopted by Alliander N.V., the ultimate parent company and Management Board of Alliander Finance, Alliander Finance is considering a merger between Alliander N.V. and Alliander Finance in the 2nd quarter of 2011.

Appropriation of net result

The Management Board proposes to add the loss after for 2010 to Shareholders Equity.

Subsequent events

There have been no subsequent events after December 31, 2010.

Disclosure Alliander Finance B.V.

The European Transparency Directive has been implemented in the Netherlands as part of the Act on Financial Supervision (Wet op het financieel toezicht (Wft)). In accordance with the Wft, we declare that, to the best of our knowledge:

- The financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Alliander Finance B.V. and
- The management report includes a fair view of the position as per 31 December 2010 and the development and performance of the business during the book year 2010 of Alliander Finance B.V. and the principal risks and uncertainties Alliander Finance B.V. faces.

Arnhem, 24 March 2011.

The Management Board:
Alliander N.V., namely by:

Ir P.C. Molengraaf	Drs. M.R. van Lieshout

Financial Statements 2010

Balance sheet

Balance sheet (before profit appropriation) *amounts x EUR 1,000*	Note	As at 31 December 2010		As at 31 December 2009	
Assets					
Non-current assets					
Financial assets	[2]	-		2,827	
Deferred income tax assets	[3]	2,225		1,154	
Derivative financial instruments	[4]	-		6,125	
Total non-current assets			*2,225*		*10,106*
Current assets					
Trade and other receivables	[5]	2,090,888		2,084,934	
Cash and cash equivalents	[6]	12		14	
Total current assets			*2,090,900*		*2,084,948*
Total assets			**2,093,125**		**2,095,054**
Equity & liabilities					
Equity					
Shareholders' equity					
Share capital	[7]	20		20	
Share premium		6,000		6,000	
Hedging reserves		-6,406		-7,940	
Other reserves		14,765		11,518	
Result for the year		-5,985		3,247	
Total Equity			*8,394*		*12,845*
Liabilities					
Non-current liabilities					
Borrowings	[8]	2,040,370		2,037,623	
Total non-current liabilities			*2,040,370*		*2,037,623*
Current liabilities					
Trade and other payables	[5]	44,361		44,586	
Total current liabilities			*44,361*		*44,586*
Total equity and liabilities			**2,093,125**		**2,095,054**

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Income statement

amounts x EUR 1,000	Note	2010		2009	
FINANCE INCOME					
Intercompany interest income		98,966		88,159	
Fair value result on derivatives		-		2,798	
Results on derivatives entered into on behalf of group companies		20		-	
Total finance income			*98,986*		*90,957*
FINANCE COSTS					
Interest expenses		-100,614		-79,007	
Fair value result on derivatives		-2,999		-	
Results on derivatives entered into on behalf of group companies		-		-729	
Other financial expenses		-3,491		-5,990	
Total finance costs			*-107,104*		*-85,726*
NET FINANCE INCOME			***-8,118***		***5,231***
OPERATING EXPENSES			***85***		***-873***
PROFIT BEFORE TAX			**-8,033**		**4,358**
Income tax expenses	[3]		2,048		-1,111
PROFIT AFTER TAX			**-5,985**		**3,247**
Attributable to shareholders Alliander Finance B.V.			-5,985		3,247

Statement of comprehensive income

amounts x EUR 1,000	2010	2009
Profit after taxation	-5,985	3,247
Cash flow hedges	2,060	1,778
Deferred tax	-526	-452
Comprehensive income	**-4,451**	**4,573**

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Cash flow statement

amounts x EUR 1,000	2010		2009	
CASH FLOW FROM OPERATING ACTIVITIES				
Profit after taxation		-5,985		3,247
Adjustments for:				
Depreciation	2,827		1,475	
Other finance income and expense	5,291		-6,706	
Net finance income and expense		8,118		-5,231
Changes in working capital				
Trade and other receivables	-5,954		-1,289,612	
Trade and other payables	-225		43,089	
		-6,179		-1,246,523
Movement in derivatives and translation differences		6,125		-3,340
Other movements		-5,231		3,343
Net cashflow from operations		**-3,152**		**-1,248,504**
Interest received	98,966		43,546	
Interest paid	-95,816		-36,840	
		3,150		6,706
Net cash flow from operating activities		**-2**		**-1,241,798**
CASH FLOW FROM FINANCING ACTIVITIES				
Borrowings				
New loans	50,000		1,242,206	
Loan repayments	-50,000		-	
Net cash flow from financing activities		**0**		**1,242,206**
NET CASH FLOW		**-2**		**408**
Balance of cash and cash equivalents at January, 1st		14		-394
Net cash flow		-2		408
Balance of cash and cash equivalents at December, 31st		**12**		**14**
Reconciliation of cash and cash equivalents.				
Cash and cash equivalents assets		12		14
Balance of cash and cash equivalents		**12**		**14**

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Statement of changes in shareholders' equity

amounts x EUR 1,000 except for shares in issue

	Number of shares in issue	Share capital paid up and called up	Share premium	Other reserves	Result for the year	Hedge reserve	Total
Balance as at 1 January 2009	**200**	**20**	**6,000**	**7,574**	**3,944**	**-9,266**	**8,272**
Profit after tax 2009					3,247		**3,247**
Cash flow hedges						1,778	**1,778**
Deferred tax						-452	**-452**
Comprehensive income 2009				-	3,247	1,326	**4,573**
Loss appropriation 2008				3,944	-3,944		-
Balance as at 31 December 2009	**200**	**20**	**6,000**	**11,518**	**3,247**	**-7,940**	**12,845**
Loss after tax 2010					-5,985		**-5,985**
Cash flow hedges						2,060	**2,060**
Deferred tax						-526	**-526**
Comprehensive income 2010				-	**-5,985**	**1,534**	**-4,451**
Profit appropiation 2009				3,247	-3,247		
Balance as at 31 December 2010	**200**	**20**	**6,000**	**14,765**	**-5,985**	**-6,406**	**8,394**

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NOTES TO THE FINANCIAL STATEMENTS

Alliander Finance B.V. (hereafter referred to as 'Alliander Finance' or 'the company') is a company with limited liability with its statutory seat in Arnhem, the Netherlands and acts as the financing vehicle of the Alliander Group.

Alliander Finance B.V. is a 100% subsidiary of Alliander N.V. and member of "the Alliander group". The main risks of Alliander Finance are described in note 14.

These financial statements for the financial year 2010 were signed on 24 March 2011 by the management board. The supervisory Board will submit this annual Report for adoption by the General Meeting of Shareholders on 28 March 2011.

Accounting policies

IFRS

The financial statements of Alliander Finance have been prepared in accordance with International Financial Reporting Standards (IFRS) as of 31 December 2010, as endorsed by the European Union (EU). IFRS consists of the IFRS standards as well as the International Accounting Standards issued by the International Accounting Standards Board (IASB), as well as the interpretations of IFRS and IAS standards, issued by the IFRS Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) respectively.

The significant accounting policies and principles that were used in the preparation of the consolidated financial statements are further discussed below. The historical cost convention has been applied. However, derivatives are valued at fair value. Unless stated otherwise, these accounting policies have been applied consistently over the financial years that are covered in these financial statements.

The preparation of financial statements requires the use of estimates and assumptions that are based on past experience and that are appropriate in the opinion of management, given the specific circumstances. These estimates and assumptions have an impact on the valuation and presentation of the reported assets and liabilities, on the assets and liabilities that are not held on the balance sheet, as well as on the reported gains and losses during the financial year. The actual outcome may diverge from the estimates and assumptions used.

Unless stated otherwise, all amounts reported in these financial statements are in thousands of Euros.

New and/or adapted IFRS standards those are applicable in 2010

The IASB and the IFRIC have issued new and/or adapted standards and interpretations which are applicable to Alliander Finance for the financial years 2010 and later. The standards and interpretations below have been endorsed by the European Commission.

IFRS 1 *'First-time Adoption of IFRS'* was amended to include further exceptions on oil and gas assets and arrangements containing a lease. As it already applies IFRS, these amendments have no effect on Alliander Finance.

IFRS 2 *'Group Cash-settled and Share-based Payment Transactions'* has been amended to incorporate IFRIC 8 'Scope of IFRS 2', and IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions' and further guidelines in IFRIC 11 on the classification of group arrangements. The new guidelines have no impact on Alliander Finance's financial statements.

IFRS 3 (revised), *'Business combinations'*. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquirer at fair vale or at the non-controlling interest's proportionate share of the acquirer's net assets. All acquisition-related costs should be expensed.
In this connection IAS 27 *'Consolidated and Separate Financial Instruments'* has been amended, the most important adjustment being that changes in the ownership stake that do not lead to a loss of control are recognised as equity transactions. IFRS 3 (revised) and amended IAS 27 are applicable prospectively to all business combinations from 1 January 2010.

IAS 39 *'Financial Instruments: Recognition and Measurement'* contains a clarification about how the existing policies for determining whether a position qualifies for designation as a hedged position must be applied in two situations: a unilateral risk in a hedged position and inflation in specific situations. This amendment has no impact on Alliander Finance.

IFRIC 16 *'Hedges of a Net Investment in a Foreign Operation'* has been amended. The amendment states that in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. This interpretation does not currently affect Alliander Finance as at the moment it does not use hedge accounting for hedged risks of net investments in foreign entities.

IFRIC 17 *'Distributions of Non-cash Assets to Owners'* clarifies and gives guidance on the accounting treatment of distributions of non-cash assets to the owners of an entity. In connection with this, IFRS 5 includes the requirement that assets are only classified as held for distribution to the owners if the assets are available for immediate distribution and distribution is highly probable. IFRIC 17 has no material impact on Alliander Finance.

The IASB *'Annual Improvements Process 2009'* resulted in corrections and various adjustments to a number of IFRS standards. These have (or will have) no material impact on Alliander Finance and are therefore not mentioned separately here.

Expected changes in accounting policies

Alongside the above-mentioned new and changed standards, the IASB and the IFRIC have issued new and/or changed standards and/or interpretations up to and including 2010. These will become effective for Alliander Finance as of the financial year 2011 or later. These standards and interpretations can only be applied after endorsement by the European Union.

IFRS 1 *'First-time adoption of IFRS'* and IFRS 7 *'Financial Instruments: Disclosures'* have been adjusted for providing first time adopters with the same provisions as included in the previous amendment to IFRS 7. This amendment has no impact for Alliander Finance.

IFRS 1 *'First time adoption'* has been amended concerning references made to the date of transition and hyperinflation. This amendment has no impact for Alliander Finance.

IFRS 9 *'Financial Instruments'* is a new standard issued in 2009. The standard introduces new requirements for the classification and measurement of financial assets and is effective from 1 January 2013, with early adoption permitted. In 2010 new requirements for classification and measurement of financial liabilities, de-recognition of financial instruments, impairment and hedge accounting have been added to IFRS 9. As a result, IFRS 9 will eventually be a complete replacement for IAS 39 and IFRS 7. At the start of 2011 it was not yet certain whether and to what extent the European Union will endorse IFRS 9. As a consequence it is not possible to state the impact for Alliander Finance in this stadium.

IAS 12 *'Income taxes'* has been amended. The amendment introduces an exemption in the requirements of IAS 12 for measurement of deferred tax relating to investment property carried at fair value. As a result of the amendments, SIC-21 Income *Taxes—Recovery of Revalued Non-Depreciable* Assets would no longer apply. This amendment, applicable as of 1 January 2012, is not expected to have an impact on Alliander Finance.

IAS 24 *'Related Party Disclosures'* has been amended. The amendments simplify the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government and clarify the definition of a related party.

The IASB *'Annual Improvements Process 2010'* has resulted in corrections and several amendments to 6 standards and 1 interpretation, applicable from 1 January 2011. These have (or will have) no material impact on Alliander and are therefore not mentioned separately here.

IFRIC 14 *'The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, Prepayment of a Minimum Funding Requirement'* has been amended to correct an unintended consequence of IFRC 14 that in certain circumstances prevents recognition of certain prepayments for the minimum funding requirement as an asset. The amendment, which applies from 1 January 2011, has no impact for Alliander Finance.

IFRIC 19 'Extinguishing *Financial Liabilities with Equity Instruments'*. This interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments. This interpretation is effective from 1 July 2011 and is not expected to have an impact on Alliander Finance.

Foreign Currency Translation

Functional currency and presentation currency
The currency of the primary economic environment in which Alliander Finance operates (the functional currency) is the euro. The Financial Statements are prepared in euro, Alliander Finance's functional and presentation currency.

Translation of transactions and Balance Sheet items denominated in foreign currency
Transactions denominated in foreign currency are translated into the functional currency at the exchange rates prevailing at transaction date. Monetary assets and liabilities in foreign currency are translated at the exchange rates as at the Balance sheet date. Foreign currency exchange differences resulting from the settlement of balance sheet items denominated in foreign currency or the translation at the Balance sheet date are recognized in the Income Statement, unless these exchange gains or losses are accounted for as cash flow hedges or net investment hedges.

Accounting policies for the Balance Sheet

Financial assets
Financial assets are divided into the categories described hereafter. Financial assets are classified as current if the company expects to realize the asset within 12 months. All other financial assets are classified as non-current.

Loans and receivables
Loans and receivables are primary financial instruments with fixed or floating payments that are not listed in active markets. Initial measurement of these loans and receivables is at fair value (being the cost of the financial assets). Loans and receivables are subsequently measured at amortised cost, using the effective interest rate method.
Amortised cost comprises the value at initial measurement (including discounts and/or premiums and transaction costs) less principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial measurement and the maturity amount.
The financial assets category included capitalized arrangement fees for an undrawn Revolving Credit Facility, which are depreciated over the expected lifetime.

In case the fair value of these financial assets has been hedged, the amortised cost is adjusted for the movement in the fair value of the hedged risk. These movements are recognised in the Income Statement.

Derivatives and hedge accounting

Application of IAS 32 en 39
Derivatives – including interest rate swaps, cross currency swaps and foreign exchange contracts – have to be valued at fair value. The fair values are derived from market prices that

are listed in active markets, or by using comparable recent market transactions in case there is no active market or by using valuation methods (which include discounted cash flow models and option pricing models).

Derivatives are classified as current or non-current assets in case the fair value is positive and as current or non-current liabilities in case the fair value is negative. The distinction between current or non-current is made on the basis of the maturity of the derivative. Offsetting of derivative receivables and payables with the same counter party takes place when there is a contractual or legal right to offset and Alliander Finance has the intention to settle the transactions on a net basis.

Accounting for the movements in fair value of derivatives
The accounting treatment for the movements in fair value of derivatives depends on whether the derivative is designated in a hedge accounting relation or not.

IAS 32 and 39 require that, in principle, all fair value movements of derivatives are to be recognized directly in the Income Statement. In case a derivative qualifies as a hedged item in an effective hedge accounting relation, hedge accounting may be applied. Hedge accounting enables companies to limit the impact of fair value movements on the results, as the fair value movements of derivatives and the hedged position can be offset in the Income Statements (fair value hedges), or fair value movements of derivatives are recognised in comprehensive income until the hedged position or transaction occurs (cash flow hedges). Specific criteria have to be met in order to apply hedge accounting.

Hedging instruments
Alliander Finance has used derivatives to hedge foreign exchange risks on assets and liabilities, and interest rate risks on long-term loans on behalf of other Alliander companies. In 2010, all outstanding derivatives have been unwound, due to unwinding of the underlying hedged position. Alliander Finance currently has not designated any derivative instruments in hedge accounting relationships. In prior periods Alliander Finance has applied hedge accounting and designated these relationships. Since the related cash flows are scheduled to occur in future periods, the related hedge reserves for prior cash flow hedge accounting relationships are amortised over the remaining life of the cash flows.

Cash flow hedges
These hedge transactions hedge the risk of movements in (future) cash flows that may affect results. 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 is recognised in comprehensive income under the hedge reserves. The non-effective part is recognised in the income statement.
The accumulated amounts that are taken in comprehensive income are recycled to the Income Statement in the same period in which the hedged transaction is recognised in the Income Statement. However, if an anticipated future transaction that is hedged leads to the recognition of a non-financial asset or liability, the accumulated value movements of 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 comprehensive income until the anticipated future transaction is recognised in the Income Statement. If an anticipated future transaction is not expected to take place anymore, the accumulated fair value movements that were recognised in comprehensive income are recycled to the Income Statement

Trade and other receivables
Trade and other receivables are initially measured at fair value and subsequently at amortised cost. Due to the short term of these receivables, the fair value and amortised cost value are equal to the nominal value. Impairments are charged to income when it can be determined objectively that these amounts are not collectable.

Cash and cash equivalents
The item Cash and cash equivalents comprises all financial instruments that are highly liquid with a maturity date at inception of less than three months. Cash and cash equivalents include cash-at-hand, cash held at bank accounts, call money and amounts deposited at banks. Alliander Finance presents bank balances on a net basis only when it has the right to offset amounts owed and due held at bank accounts with the same banks and Alliander Finance has the intention to use this right and effectively uses this right.
Cash and cash equivalents are measured at amortised cost, which approximates fair value.

Borrowings
Borrowings are initially measured at fair value, which approximates the amount received. Borrowings, with the exception of derivatives, are subsequently measured at amortised cost. Transaction costs, including premiums or discounts, are amortised using the effective interest rate method. Amortised cost comprises the value at initial measurement (including discounts and/or premiums and transaction costs) less principal repayments, and plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial measurement and the maturity amount.

In case the fair value risk of borrowings is hedged by means of a hedging instrument, the amortised cost value is adjusted for the movement in the value of the hedged risk. The value movements are recognised in the Income Statement.

Deferred tax assets and liabilities
Deferred tax assets and liabilities that arise from temporary differences between the carrying value in the Financial Statements and the carrying value for tax purposes are determined based on the income tax rates that are currently applicable or will be applicable, based on current legislation, at the time of settlement of the deferred tax asset or liability. Deferred tax assets are recognised if it can be reasonably assumed that sufficient future taxable income will be available. Offsetting of deferred tax assets and liabilities will only take place if Alliander Finance has a legal right to offset and the assets and liabilities relate to taxes that are levied by the same tax authority or governmental body. Deferred tax assets and liabilities are not stated at net present value but at nominal value. The tax rates are based on enacted or substantially enacted tax legislation at the balance sheet date.

Trade and other payables
Trade and other payables are initially measured at fair value and subsequently at amortised cost. Due to the short term of these payables, the fair value and amortised cost value are equal to the nominal value.

Accounting policies for the Income Statement

Finance income and expenses

This item consists of the following:

- Interest and similar income: this includes the interest income on financial (interest bearing) loans and receivables and cash and cash equivalents, determined using the effective interest rate method.
- Interest and similar expenses: this includes the interest expenses on financial (interest-bearing) liabilities, determined using the effective interest rate method. Financial liabilities consist mainly of loans issued under the Euro Medium Term Notes program. In addition, the costs of financing are reported under this item such as costs of letters of credit, commitment fees, depreciation of arrangement fees etc.
- Fair value gains on derivatives; this comprises the fair value movements of derivatives.

Tax

The income tax charge is determined based on the applicable rates for income taxes and are valued at nominal value. Permanent differences between the results for tax purposes and financial reporting purposes are taken into account, as well as the possibilities of the utilisation of tax losses carried forward, in case deferred tax assets have not been recognised yet for these tax losses.

Accounting policies for the Cash Flow Statement

The Cash Flow Statement is prepared in accordance with the indirect method. Exchange rate differences are eliminated insofar as these did not lead to cash flows.

Assumptions and estimates used in the Financial Statements

The assets and liabilities on the balance sheet of Alliander Finance mainly consist of loans and receivables, cash and cash equivalents, derivatives and loans under the Euro Medium Term Note programme.

Valuation of deferred tax assets and liabilities

In the determination of the value of the deferred tax assets and for financial reporting purposes, assumptions are used with respect to the extent of which these assets will be realised and the term over which these will be realised. Among other things, the business plans are taken into account to this end. In addition, assumptions with regard to temporary and permanent differences are used in the preparation of the financial statements. The actual outcome may differ from the assumptions used, for instance as a result of disputes with the tax authorities and changes in tax legislation.

Valuation of trade receivables

Alliander Finance regularly assesses the valuation of the trade receivables, based upon past experience and specific developments with its customers. Impairments on the value of trade receivables may be recognised as a result of these assessments. The actual outcome may differ from the assumptions that were used in the determination of the impairments.

NOTES TO THE FINANCIAL STATEMENTS

[1] Segmentation
Alliander Finance has only one reporting segment.

[2] Financial assets
Non-current financial assets consisted of capitalized arrangement fee of € 2.8 million for the undrawn revolving credit facility of € 875 million which is unwound in 2010.

	2010	2009
Balance at January, 1st	2,827	4,425
Depreciation arrangement fee	-2,827	-1,598
Balance at December, 31st	-	**2,827**

[3] Tax
Deferred tax assets
The deferred tax assets in 2010 consist of the tax effect on the hedging reserves that are recognised in other comprehensive income. The movements in deferred tax assets are summarised below.

	2010	2009
Balance at January, 1st	**1,154**	**3,171**
Cash flow hedges	-525	-452
Fair value CCIRS	1,596	-1,565
Balance at December, 31st	**2,225**	**1,154**

Alliander Finance forms part of the fiscal unity for income tax of Alliander N.V.. Consequently, Alliander Finance calculates its tax charge or tax benefit for the financial year on a stand alone basis. The related tax payable or receivable resulting from the tax charge or benefit is accounted for on the Balance Sheet under the current account with Alliander N.V.

The deferred asset related to the fair value CCIRS is a result of a restructured tax position in 2009. The CCIRS was unwound in 2010.

[4] Derivative financial instruments

	2010	2009
	assets	**assets**
Cross currency interest rate swap - fair value to P&L	-	6,125

[5] Trade and other receivables

	2010	2009
Current account Alliander N.V.	2,090,888	2,084,934

The current account with Alliander N.V. bears interest at 4.7% (2009: 5.0%) and is fully performing. There are no guarantees and/or collaterals held in this respect.

Trade and other payables

	2010	2009
Interest	44,361	44,361
Accruals and deferred income	-	225
	44,361	**44,586**

The interest payable consists of € 43.0 million which is due on 20 April 2011 and € 1.4 million which is due on 17 December 2011.

[6] Cash and cash equivalents

Cash and cash equivalents are free-accessible to Alliander Finance.

[7] Shareholders' equity

Share capital paid up and called up

The authorised capital of the company amounts to € 100 thousand, divided into 1,000 shares having a face value of € 100 each of which 200 shares were issued and fully paid up by Alliander N.V.
For further information on the cash flow hedge reserve please refer to note 14.

[8] Borrowings

	Balance 01-01-2009	New loans	Early repayments	P&L charge	Fair value hedge	Translation difference	Repayments within 1 year	Balance 31-12-2009
Euro Medium Term Notes	*800,000*	*1,250,000*	-	-	-	-	-	2,050,000
EMTNotes - Amortized Costs	-4,583	-9,033	-	1,239	-	-	-	-12,377
Euro Medium Term Notes Total	795,417	1,240,968	-	1,239	-	-	-	2,037,623

	Balance 01-01-2010	New loans	Early repayments	P&L charge	Fair value hedge	Translation difference	Repayments within 1 year	Balance 31-12-2010
Euro Medium Term Notes	2,050,000	-	-	-	-	-	-	2,050,000
EMTNotes - Amortized Costs	-12,377	-	-	2,747	-	-	-	-9,630
Euro Medium Term Notes Total	2,037,623	-	-	2,747	-	-	-	2,040,370

Interest rates and repayments of long-term liabilities are as follows:

Effective interest rate	**2010**	**2009**
EUR	4.8%	4.7%

Repayment and interest schedule	**2010**	**2009**
1 - 2 years	500,000	-
2 - 3 years	-	500,000
3 - 4 years	500,000	-
4 - 5 years	-	500,000
> 5 years	1,050,000	1,050,000
Total	**2,050,000**	**2,050,000**
Amortized costs	*-9,630*	*-12,377*
Book value	***2,040,370***	***2,037,623***

The total balance drawn amounts to € 2,050 million and consists of Euro denominated borrowings.

[9] Employees
During the year the average number of employees was nil (2009: nil).

[10] Directors' remuneration
The directors received no remuneration in respect of their services during the year (2009: nil).

[11] Related party transactions
The Company acts as a financing vehicle for the Alliander Group. External borrowings are subsequently lent to Alliander N.V. through current account at interest rates that are a weighted average rate on loans of the Alliander group. No other transactions with related parties occurred.

[12] Audit expenses
The audit expenses of the statutory auditor PricewaterhouseCoopers Accountants N.V. can be specified as follows:

	2010	2009
Audit of the financial statements	25	18
Other audits	-	-
Tax advice	-	-
Other		-
	25	**18**

[13] Off-balance sheet obligations, commitments and contingent assets and liabilities
Alliander Finance forms part of the fiscal unity of Alliander N.V. for VAT and income tax. As a result, Alliander Finance is jointly and severally liable for the VAT and income tax obligations of all other entities within the fiscal unity of Alliander N.V.

Alliander N.V., the ultimate parent company of Alliander Finance, has issued a '403' declaration pursuant to Book 2 of the Dutch Civil Code. As a consequence, Alliander N.V. assumes liability for the obligations arising from the legal acts of Alliander Finance.

[14] Financial Risk Management

General
With respect to financial risks, the following 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 Finance is exposed primarily to interest rate risk. Credit risk is the risk resulting from counterparty default. Liquidity risk is the risk of not being able to meet obligations associated with financial liabilities.

This note provides information on the above-mentioned financial risks to which Alliander Finance is exposed, the objectives and the policy for the management of risks arising from financial instruments as well as the management of capital. Further quantitative notes are provided in the various footnotes to the financial statements.

The risk management policy of Alliander Finance is prescribed by its ultimate parent, Alliander N.V.. Financial risk management within Alliander is executed in line with the procedures, policies and boundaries established by the Board of Management of Alliander N.V. These procedures comprise not only the procedures and policies with regard to risk management for the company as a whole, but also procedures and guidelines with regard to specific areas such as foreign exchange risks, interest rate risks, credit risks, the use of derivatives and the investment of excess cash and cash equivalents. The risk management policies for the company as a whole are designed to avoid and limit as much as possible, potential adverse consequences on Alliander's financial results.

Market Risk
Alliander is exposed to the following market risks:

- 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 (i) the value of a financial instrument will fluctuate because of changes in market interest rates and (ii) the variable cash flows of financial instruments will change due to changes in referenced market interest rates.

Alliander Finance hedges foreign currency and interest rate risks arising on its borrowings through the purchase and sale of interest rate swaps and cross currency interest rate swaps. Alliander Finance seeks to account for these activities through the application of hedge accounting, thereby minimizing the volatility of the results due to changes in the value of the derivative financial instruments. All transactions are carried out within the guidelines as approved by the Management Board of Alliander N.V..

Currency risk
General
The Alliander group has an 'exposure based' currency policy. The Alliander group recognises various types of risk in relation to foreign currency, of which the following two are relevant to Alliander Finance:

- *Transaction risks* concern risks in respect of future cash flows in foreign currency as well as in relation to balance sheet positions in foreign currency of both Alliander Finance and the Alliander group. These risks are 100% hedged.

  These positions and risks are principally hedged 'back-to-back' with external counterparties through cross currency interest rate swaps.

  Loans of the Alliander group are, in principle, concluded in Euros.

- *Economic risks* are related to a possible deterioration of the competitive position as a result of a change in the value of foreign currencies. These risks are currently not hedged because Alliander perceives the probability of a deterioration of the competitive position due to this as low. Furthermore, Alliander regards this as normal risk of doing business.

Exposure to currency risks and sensitivity analysis
Alliander Finance's exposure to currency risk based on nominal values is included in the table below. This table indicates 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 remain unchanged, on Alliander Finance's financial income and expenses and shareholders' equity. In this connection, account was taken of derivatives concluded to hedge the currency risk. The effects on other comprehensive income are calculated using the balance sheet rate.

Sensitivity analysis currency risk *amounts x EUR 1,000*	Position	Income		Equity	
		Decrease by 10% relative to the euro	Increase by 10% relative to the euro	Decrease by 10% relative to the euro	Increase by 10% relative to the euro
31 December 2010					
Exposure in USD in Alliander group companies: not Alliander Finance	-	-	-	-	-
Hedged position in USD: Alliander Finance	-	-	-	-	-
Sensitivity cash flow in USD (net)	-	-	-	-	-
31 December 2009					
Exposure in USD in Alliander group companies: not Alliander Finance	55,181	-5,518	5,518	-	-
Hedged position in USD: Alliander Finance	-56,870	5,687	-5,687	-	-
Sensitivity cash flow in USD (net)	-1,689	169	-169	-	-

The table includes risk positions from exposure in foreign currencies in both Alliander Finance and Alliander group companies.

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

Spot rate per balance sheet date

EUR 1	2010	2009
USD	1.34	1.43

Interest rate risk

General
Alliander Finance makes use of derivatives such as interest rate swaps to mitigate any interest rate risk.
The table below provides insight into the degree to which Alliander Finance is exposed to changes in the interest rates for financial instruments. The table below shows the effective interest rate as at balance sheet date as well as the maturity date or – if earlier - the contractual interest re-pricing date. This means that a long-term loan whose interest re-prices in the forthcoming year is classified in the category 'less than 1 year'.

Maturity date or earlier contractual interest repricing date
amounts x EUR 1,000

	Effective interest rate	Variable/ fixed	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
31 December 2010						
Other receivables						
Trade and other receivables	4.7%	Fixed	2,091,681	-	-	2,091,681
Cash and cash equivalents		Variable	12	-	-	12
Total assets			2,091,693	-	-	2,091,693
Loans received						
Euro Medium Term Notes	4.8%	Fixed	-	-997,438	-1,042,932	-2,040,370
Euro Commercial Paper		Variable	-	-	-	-
Derivatives						
Cross currency interest rate swaps		Variable	-	-	-	-
Total liabilities			-	-997,438	-1,042,932	-2,040,370
31 December 2009						
Other receivables						
Trade and other receivables	5.0%	Fixed	2,084,934	-	-	2,084,934
Cash and cash equivalents		Variable	14	-	-	14
Total assets			2,084,948	-	-	2,084,948
Loans received						
Euro Medium Term Notes	4.7%	Fixed	-	-995,970	-1,041,918	-2,037,889
Derivatives						
Cross currency interest rate swaps		Variable	56,870	-56,870	-	-
Total liabilities			56,870	-1,052,840	-1,041,918	-2,037,889

At year-end 2010 Alliander Finance had no outstanding interest rate swaps or outstanding cross currency interest rate swaps (2009: USD 81.4 million/€ 56.9 million).

Sensitivity analysis

Sensitivity analysis in relation to fair value for fixed-interest assets and liabilities
Alliander Finance has unwound its cross currency interest rate swaps, which were subject to sensitivity to market interest rates and therefore no sensitivity is noted per 31 December 2010. In the table underneath the next paragraph the exposure to this sensitivity is included.

Sensitivity analysis in relation to cash flows for variable interest assets and liabilities
A change of 100 basis points in the interest rates as at 31 December 2010 and 31 December 2009 would, assuming all other circumstances remain unchanged, has no pre-tax effect on Alliander Finance's other comprehensive income on an annual basis (financial income and expenses) as indicated in the table below.

Sensitivity analysis interest rate risk
amounts x EUR 1,000

	Position	Income		Equity	
		Decrease by 100 basis points	Increase by 100 basis points	Decrease by 100 basis points	Increase by 100 basis points
31 December 2010					
Variable rated instruments	12	-	-	-	-
Interest rate swaps	-	-	-	-	-
Sensitivity cash flow (net)	12	-	-	-	-
31 December 2009					
Variable rated instruments	14	-	-	-	-
Interest rate swaps	56,870	569	-569	-	-
Sensitivity cash flow (net)	56,884	569	-569	-	-

Cash flow hedging
In the phase preceding the conclusion of the Medium Term Notes in 2004, Alliander Finance hedged the risks arising from the expected future interest payments by means of interest rate swaps. These swaps were designated as cash flow hedges. From the moment that the loans are concluded, the interest rate swaps were settled in cash and the loss contained until that moment in the cash flow hedge reserve is released to income during the remaining life of the loans so that on balance the originally hedged interest rate level is recognised in the income statement. Since these interest rate swaps have been settled on conclusion of the loans, no future cash flows are expected from these interest rate swaps. The balance as per 31 December 2010 amounting to € 8.6 million (2009: € 10.7 million) is recognised in the income statement until 2014.

The table below presents the movement of the cash flow hedge reserve in the financial year before tax. As per the end of 2010 the cash flow hedge reserve amounts to € -6.4 million net of deferred tax (2009: € -7.9 million).

Cash flow hedges
amounts x EUR 1,000

	Hedge ineffectiveness	Hedge reserve as per 1 January	Changes in fair value	Reclas-sification to Translation reserve	Reclas-sification to Other reserves	Release to Income	Hedge reserve as per 31 December
2010							
Currency risks							
Cross currency interest rate swaps	-	-	-	-	-		-
Interest rate risks							
Interest rate swaps	-	-10,659	-	-	-	2,060	-8,599
Total 2010	-	-10,659	-	-	-	2,060	-8,599
2009							
Currency risks							
Cross currency interest rate swaps		-	-	-	-		-
Interest rate risks							
Interest rate swaps	-	-12,438	-	-	-	1,777	-10,659
Total 2009	-	-12,438	-	-	-	1,777	-10,659

Credit risk

General
Credit risk arises as a result of the financing activities of Alliander Finance. Credit risk is the loss incurred through a counterpart's lack of willingness or lack of ability to perform. A consistent

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approach to credit analysis and management is applied throughout the Alliander group, with the degree of review undertaken varying depending on the magnitude of credit risk in a transaction.

Cash and cash equivalent surpluses are placed in the money and capital markets at market-consistent rates with institutions named in a list of permitted counterparties drawn up by the Management Board up to the maximum limit set for the institution in question. In addition, norms have been set for the creditworthiness level of the cash and cash equivalents portfolio as a whole on the basis of credit ratings set by credit rating agencies.

Credit risk is managed through established credit policies, regular monitoring of credit exposures and application of appropriate mitigation tools.

Credit quality
The majority of Alliander Finance's credit risk is with Alliander N.V.. As per 31 December 2010, Alliander Finance owns € 2,090.9 million from Alliander N.V. (2009: € 2,084.9 million). In 2010 Moody's upgraded the credit-rating of Alliander N.V. from A2 to Aa3, which means that the credit quality of Alliander N.V. has improved.
The credit rating of Alliander N.V. as per the end of 2010 was as follows:

Credit rating	Standard & Poor's		Moody's	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Alliander N.V. short-term	A-1	A-1	P-1	P-1
Alliander N.V. long-term	A (stable outlook)	A (stable outlook)	Aa3 (stable outlook)	A2 (stable outlook)

Maximum credit risk
The maximum credit risk is the balance sheet value of each financial asset.

Liquidity risk

General
Liquidity risk comprises the risk that Alliander Finance is not able to obtain the required financial resources for the timely fulfilment of its financial commitments. In this respect the Alliander group regularly assesses the expected cash flows over a period of three years. The overall aim is to have sufficient committed credit facilities at all times in order to secure the required liquidity in the coming three years.

To provide insight into the liquidity risk, the table below shows the contractual terms of the financial obligations (translated at balance sheet rate), including interest payments.

Liquidity risk
amounts x EUR 1,000

	Book value	Contractual cash flows			
		Less than 1 year	Between 1 and 5 years	Over 5 years	Total
31 December 2010					
Loans received					
Notional amounts	2,040,370	-	-1,000,000	-1,050,000	-2,050,000
Interest		-95,375	-300,875	-95,250	-491,500
Forex instruments					
Cross currency interest rate swaps					
Payments interest and notional amounts		-	-	-	-
Receipts interest and notional amounts		-	-	-	-
Total cross currency interest rate swaps		-	-	-	-
Total	**2,040,370**	**-95,375**	**-1,300,875**	**-1,145,250**	**-2,541,500**
31 December 2009					
Loans received					
Notional amounts	-2,037,623	-	-1,000,000	-1,050,000	-2,050,000
Interest		-95,375	-341,500	-150,000	-586,875
Forex instruments					
Cross currency interest rate swaps*	6,125				
Payments interest and notional amounts		-599	-59,349	-	-59,948
Receipts interest and notional amounts		2,498	70,553	-	73,051
Total cross currency interest rate swaps		1,900	11,203	-	13,103
Total	**-2,031,498**	**-93,475**	**-1,330,297**	**-1,200,000**	**-2,623,772**

Fair values
The fair value of all short term financial instruments equals book value. Furthermore, the fair values of all derivative instruments equal their book values. The table below presents the fair values of the financial assets and liabilities as at 31 December 2010 that are different from their book value.

Fair values
amounts x EUR 1,000

		Book value IAS 39 categories					
Classes	**Note**	**Fair value through profit or loss**	**Loans and receivables**	**Other liabilities**	**Off balance commitments**	**Total**	**Fair value**
31 December 2010							
Loans received	[7]	-	-	-2,040,370	-	-2,040,370	-2,239,590
31 December 2009							
Loans received	[7]	-	-	2,037,623	-	2,037,623	-2,229,925

Determination of fair value
The fair value of financial instruments was determined as follows:

- Currency derivatives and interest rate derivatives (note [4]) are recognised on the basis of the present value of the future cash flows, making use of the interbank rate (such as Euribor, or Eurswap for cash flows longer than one year) applicable on the reporting date for the remaining term of the contracts. The present value in foreign currency is translated at the spot rate applicable on reporting date;

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- The fair value of borrowings is determined making use of market quotes, or if unavailable, by calculating their present value at the Euro Interbank offered rate (Euribor for terms less than 1 year or the EUR swap curve for terms longer than 1 year) as at 31 December.
  At year-end 2010 the following yield curve was applied:
  1-year 1.31% (2009: 1.69%)
  5-year 2.91% (2009: 3.34%)
  10-year 3.73% (2009: 4.52%)
  20-year 4.67% (2009: 4.96%)
- The fair value of the short term receivables and liabilities is, in view of their short term nature, identical to the book value;
- Cash and cash equivalents are recognised at nominal value which, in view of their short-term and risk-free nature, corresponds with the fair value.

Financial income and expenses
The table below indicates which income and expenses are recognized in respect of financial instruments in the income statement:

Effect of financial instruments on income statement

amounts x EUR 1,000	**2010**	**2009**
Net result on derivatives held for trading		
Fair value changes forex instruments	-2,999	2,798
Net result on financial liabilities at amortised cost		
Interest charges on financial liabilities at amortised cost	-98,554	-77,228
Interest gains on Trade and other receivables and Cash and cash equivalents	98,966	88,159
Received and paid fees other than for the calculation of the effective interest rate	-3,491	-5,990
Amortisation of cash flow hedges from equity to income statement	-2,060	-1,778
Exchande difference results	20	-730
Net financial income and expenses	-8,118	5,231

The table below indicates which income and expenses are recognised in the other comprehensive income in respect of financial instruments:

amounts x EUR 1,000	**2010**	**2009**
Net change in fair value of cash flow hedges transferred to the income statement	2,060	1,778
Total recorded in cash flow hedge reserve	2,060	1,778

Arnhem, 24 March 2011

The Management Board

Alliander N.V.

Other information

Appropriation of result
Article 15 of the company's Articles of Association states that the result for the year is at the disposition of the shareholder. No dividend will be paid out if retained earnings are negative.

Proposed profit appropriation for the year
Management proposes to add the loss after tax for 2010 to Shareholders' Equity.

Subsequent events
There have been no subsequent events after December 31, 2010

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Independent auditor's report

To: the General Meeting of Shareholders of Alliander Finance B.V.

Report on the financial statements

We have audited the accompanying financial statements 2010 as set out on pages 4 to 25 of Alliander Finance B.V., Arnhem, which comprise the balance sheet as at 31 December 2010, the income statement, the statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

Management board's responsibility

The management board is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Report of the Management Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the management board is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Alliander Finance B.V. as at 31 December 2010, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Report of the Management Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the Report of the Management Board, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Rotterdam, 24 March 2011
PricewaterhouseCoopers Accountants N.V.

J.A.M. Stael RA

AANDEELHOUDERSBESLUIT

De ondergetekende:
Alliander N.V., statutair gevestigd te Arnhem, ten dezen rechtsgeldig vertegenwoordigd door haar zelfstandig vertegenwoordigingsbevoegd lid van de Raad van Bestuur, de heer M.R. van Lieshout,

in aanmerking nemende:

- dat Alliander N.V. houder is van alle, te weten 1.000 geplaatste aandelen van EUR 100,-- in het kapitaal van de besloten vennootschap Alliander Finance B.V., statutair gevestigd te Arnhem (hierna: de 'Vennootschap');

- dat blijkens mededeling van de directie van de Vennootschap er ten aanzien van de Vennootschap geen personen zijn die de rechten hebben die de wet toekent aan houders van met medewerking van een vennootschap uitgegeven certificaten van aandelen in haar kapitaal;

heeft op 28 maart 2010 in haar hoedanigheid als houder van alle aandelen in de Vennootschap:

- met inachtneming van het bepaalde in artikel 14.2 van de statuten van de Vennootschap, met algemene stemmen besloten tot vaststelling van de jaarrekening van Alliander Finance B.V. over het jaar 2010.

Getekend te Arnhem op 28 maart 2011

Alliander N.V.

M.R. van Lieshout,
lid Raad van Bestuur