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Alliander Finance B.V.

**Annual Report
for the year ended
31 December 2009**

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Report of the Management Board

Refinancing

In view of the obligatory unbundling to achieve compliance with the Act on a independent network company (Wet Onafhankelijk Netbeheer (WON prohibition)) on integrated energy companies, a current account settlement took place between Nuon Energy and Alliander. In this framework, the existing Euro Medium Term Notes (EMTN) programme was adjusted in the first quarter and raised to € 3 billion. On 6 April 2009 two bonds were issued totalling € 1.25 billion (€ 500 million with a term until April 2012 and € 750 million with a term until April 2016). The total amount of outstanding bonds thus amounts to € 2.05 billion.

In January 2009 Alliander Finance has signed a bridging facility of € 1 billion. After issuing Euro medium Term Notes the bridging facility was unwound.

Alliander Finance has a Euro Commercial Paper programme of € 1.5 billion. From March until September 2009 Commercial Paper was drawn to a maximum of € 315 million under this facility and repaid during 2009. The facility is not used at 31 December 2009.

The increase of the balance sheet total was mainly the consequence of the issued bonds and subsequently the increase of the current account with the parent company Alliander N.V.

Results 2009

In 2009, Alliander Finance reported a profit after taxation of € 3.2 million (2008: € 3.9 million). The profit was primarily the result of the interest rate spread between the interest income from the Alliander group and interest expenses related to the EMTN programme € 9.2 million (2008: € -0.2 million). The fees paid on facilities mentioned above are reported under other financial expenses and amount to € -6.0 million (2008: € -2.0 million).

Cash flows and liquidity

The cash flow from operating activities resulted in a cash outflow of € 1,241.8 million in 2009 (2008: € 42.7 million). This was primarily due to the higher cash outflow from Trade and other receivables related to the position with Alliander N.V..

In 2009 the cash flow from financing activities resulted in a cash inflow of € 1,242.2 million, compared to of a cash outflow € 39.1 million in 2008. This was caused by the issuance of Medium Term Notes.

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

Alliander Finance B.V. acts as the financing vehicle of the Alliander Group. The Alliander Group has a financial policy to maintain an A-Credit rating profile.

In line with the policy adopted by Alliander N.V., the ultimate parent company and Management Board of Alliander Finance, Alliander Finance does not issue any statements regarding expected future results.

Appropriation of net result

The Management Board proposes to add the profit after taxation for 2009 to Shareholders Equity.

Subsequent events

The credit rating of Alliander, the parent company, is on 11 March 2010 revaluated by Moody's and is upgraded from A2 to Aa3.

There have been no further subsequent events after December 31, 2009.

Disclosure Alliander Finance B.V.

Recently 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 2009 and the development and performance of the business during the book year 2009 of Alliander Finance B.V. and the principal risks and uncertainties Alliander Finance B.V. faces.

Arnhem, 7 April 2010.

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

Ir P.C. Molengraaf

Drs. M.R. van Lieshout

Financial Statements 2009**Balance sheet**

(before profit appropriation)

amounts x EUR 1.000

	Note	As at 31 December <u>2009</u>	As at 31 December <u>2008</u>
ASSETS			
Non-current assets			
Financial assets	2	2,827	4,302
Deferred income tax assets	3	1,154	3,171
Derivative financial instruments	4	6,125	2,785
		<u>10,106</u>	<u>10,258</u>
Current assets			
Trade and other receivables	5	2,084,934	795,322
Cash and cash equivalents	6	14	45
		<u>2,084,948</u>	<u>795,367</u>
Total assets		<u>2,095,054</u>	<u>805,625</u>
EQUITY			
Shareholders' equity			
Share capital	7	20	20
Share premium		6,000	6,000
Other reserves		11,518	7,574
Hedging reserves		-7,940	-9,266
Result for the year		3,247	3,944
Total Equity		<u>12,845</u>	<u>8,272</u>
LIABILITIES			
Non-current liabilities			
Borrowings	8	2,037,623	795,417
		<u>2,037,623</u>	<u>795,417</u>
Current liabilities			
Trade and other payables	5	44,586	1,497
Cash and cash equivalents		0	439
		<u>44,586</u>	<u>1,936</u>
Total equity and liabilities		<u>2,095,054</u>	<u>805,625</u>

Income statement

amounts x EUR 1.000

	Note	As at 31 December 2009	As at 31 December 2008
FINANCE INCOME			
Intercompany interest income		88,159	45,176
Results on derivatives entered into on behalf of group companies		0	9,332
Fair value gain on derivatives		2,798	0
		<u>90,957</u>	<u>54,508</u>
FINANCE COSTS			
Interest expenses		-79,007	-45,435
Results on derivatives entered into on behalf of group companies		-729	0
Fair value gain on derivatives		0	-1,579
Other financial expenses		-5,990	-1,997
		<u>-85,726</u>	<u>-49,011</u>
NET FINANCE INCOME		<u>5,231</u>	<u>5,497</u>
OPERATING EXPENSES			
Operating expenses		-873	-91
		<u>-873</u>	<u>-91</u>
PROFIT BEFORE TAXATION		<u>4,358</u>	<u>5,406</u>
Income tax expenses	3	-1,111	-1,462
PROFIT AFTER TAXATION		<u>3,247</u>	<u>3,944</u>
Attributable to shareholders Alliander Finance B.V.		3,247	3,944

Statement of comprehensive income

	2009	2008
Profit after taxation 2009	3,247	3,944
Cash flow hedges	1,778	1,644
Deferred tax	452	419
Comprehensive income 2009	<u>4,573</u>	<u>5,169</u>

Cash flow statement

amounts x 1.000 EUR

	As at 31 December	
	2009	2008
CASH FLOW FROM OPERATING ACTIVITIES		
Profit after taxation	3,247	3,944
Depreciation	1,475	0
Changes in working capital		
Trade and other receivables	-1,289,612	54,964
Trade and other payables	43,089	-184
	<u>-1,246,523</u>	<u>54,780</u>
Movement in derivatives and translation differences	-3,340	-17,625
Other movements	3,343	1,644
	<u>3,343</u>	<u>1,644</u>
Net cash flow from operating activities	<u>-1,241,798</u>	<u>42,743</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Investment in non-current financial assets		-4,302
	<u>0</u>	<u>-4,302</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Borrowings		
New loans	1,242,206	6,488
Capital share premium	0	6,000
Loan repayments	0	-51,622
Net cash flow from financing activities	<u>1,242,206</u>	<u>-39,134</u>
NET CASH FLOW	<u>408</u>	<u>-693</u>
Balance of cash and cash equivalents at January, 1st	-394	299
Net cash flow	408	-693
Balance of cash and cash equivalents at December, 31st	<u>14</u>	<u>-394</u>
Reconciliation of cash and cash equivalents.		
Cash and cash equivalents assets	14	45
Cash and cash equivalents liabilities	0	-439
Balance of cash and cash equivalents	<u>14</u>	<u>-394</u>

Statement of changes in shareholders' equity
amounts x EUR 1 thousand 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 Januari 2008	200	20	-	1,235-	8,809	10,491-	2,897-
Profit after taxation 2008					3,944		3,944
Cash flow hedges						1,644	1,644
Deferred tax						419-	419-
Comprehensive income 2008					3,944	1,225	5,169
Profit appropriation 2007				8,809	8,809-		-
Issue of share premium			6,000				6,000
Balance as at 31 December 2008	200	20	6,000	7,574	3,944	9,266-	8,272
Profit after taxation 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
Profit appropriation 2008				3,944	3,944-		-
Balance as at 31 December 2009	200	20	6,000	11,518	3,247	7,940-	12,845

NOTES TO THE FINANCIAL STATEMENTS

Alliander Finance B.V. (Formerly NUON Finance B.V. and 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. On March 3rd, 2009 Alliander Finance B.V. changed the statutory seat from Amsterdam to Arnhem and its name into Alliander Finance B.V.

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 describes in note 14.

These financial statements for the financial year 2009 were signed on 7 April 2010 by the management board. The supervisory Board will submit this annual Report for adoption by the General Meeting of Shareholders on 19 April 2010.

Accounting policies

IFRS

The financial statements of Alliander Finance have been prepared in accordance with International Financial Reporting Standards (IFRS) as of 31 December 2009, 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 International Financial Reporting 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 2009

The IASB and the IFRIC have issued new and/or adapted standards and interpretations which are applicable to Alliander Finance for the financial years 2009 and later. The standards and interpretations below have been endorsed by the European Commission.

IFRS 7 *'Financial instruments – Disclosures'* was amended. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact.

IFRS 8 *'Operating Segments'* supersedes IAS14 *'Segment Reporting'* and is applicable to financial years starting on or after 1 January 2009. IFRS 8 addresses the manner in which segments must be defined in the financial statements. The standard also requires disclosures on the types of products and services provided by a company, the geographical areas in which the company operates and its principal customers. IFRS is applicable to Alliander Finance but has no consequences.

IAS 1 *'Presentation of Financial Statements'* contains amendments aimed at providing a clearer presentation of financial information and, in particular, of income and expenses. Under the amended standard, all income and expenses are presented separately from changes in the equity arising from transactions with owners. The standard gives the option of presenting income and expenses and changes in the equity in a single comprehensive statement, in which subtotals are given, or in two separate statements. In addition, the amended standard prescribes the presentation of the opening balance sheet at the start of the comparative period.

IAS 32 *'Financial Instruments: Presentation'* has been amended in combination with IAS 1 *'Presentation of Financial Instruments'* and prescribes that the following financial instruments that were formerly classified as financial liabilities are now classified as equity instruments: puttable financial instruments, such as some shares issued by cooperative institutions, and instruments or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation. Alliander Finance currently has no instruments falling within the above-mentioned classifications.

IAS 39 *'Financial Instruments: Recognition and Measurement'* contains a clarification regarding assessment of embedded derivatives to make clear that an entity is required to assess whether an embedded derivative is closely related to the host contract at the date of reclassification. This amendment has no effect on Alliander Finance.

The IASB 'Annual Improvements Process' 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 2009. These will become effective for Alliander Finance as of the financial year 2010 or later. These standards and interpretations can only be applied after endorsement by the European Union.

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 value 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 prospectively to all business combinations from 1 January 2010.

IFRS 9 '*Financial Instruments*' is a new standard. The standard introduces new requirements for the classification and measurement of financial assets and is effective from 1 January 2013, with early adoption permitted. New requirements for classification and measurement of financial liabilities, de-recognition of financial instruments, impairment and hedge accounting are expected to be added to IFRS 9 in 2010. As a result, IFRS 9 will eventually be a complete replacement for IAS 39 and IFRS 7. At the start of 2010 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 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 amended standard is effective from 1 January 2011.

IAS 32 '*Financial Instruments, Presentation, Classification of Rights Issues*' has been amended. The amendment to IAS 32 clarifies how to account for certain rights when the issued instruments are denominated in a currency other than the functional currency of the issuer. If such instruments are issued pro rata to the issuer's existing shareholders for a

fixed amount of cash, they should be classified as equity even if their exercise price is denominated in a currency other than the issuer's functional currency. This amendment has no impact on Alliander Finance.

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. These two situations are not applicable to the hedged positions of Alliander Finance.

The IASB '*Annual Improvements Process 2009*' results in corrections and various adjustments to 12 IFRS standards. The effective dates are various (mostly 1 January 2010). These improvements have (or will have) no material impact on Alliander Finance and are therefore not mentioned separately here.

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 and liabilities

Financial assets – primarily consisting of investments in loans and shares – are divided into the categories described hereafter. Financial assets are classified as current if the remaining maturity on the balance sheet date is less than 12 months. The assets are classified as non-current in case the remaining maturity exceeds 12 months. The valuation 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 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.

Financial assets consist of fees on the undrawn credit facility and are depreciated over the expected useful life of 3 years, using the straight-line method.

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 short-term or long-term liabilities in case the fair value is negative. The distinction between current or non-current assets and short-term or long-term 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 uses derivatives to hedge foreign exchange risks on assets and liabilities, and interest rate risks on long-term loans. 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 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 has present 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.

Financial liabilities

Financial liabilities are initially measured at fair value, which approximates the amount received. Financial liabilities, 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 financial liabilities 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, etc.

- Fair value gains on derivatives; this comprises the fair value movements of derivatives.

Taxation

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 consist of capitalized arrangement fee of € 4.4 million for the revolving credit facility of € 875 million under which no drawings have been made so far.

	<u>2009</u>	<u>2008</u>
Arrangement fee	4,425	4,425
Depreciation	<u>1,598-</u>	<u>123-</u>
Balance as at 31 December	2,827	4,302

On 29 November 2008 Alliander Finance B.V. entered into a € 875 million multi-currency revolving credit facility for a period of 3 years. The facility, which is guaranteed by Alliander N.V., is unused per 31-12-2009.

[3] Taxation**Deferred tax assets**

The deferred tax assets 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.

	<u>2009</u>	<u>2008</u>
	<u>3,171</u>	<u>3,590</u>
Cash flow hedges	452-	419-
Fair value CCIRS	<u>1,565-</u>	<u>-</u>
Balance as at 31 December	1,154	3,171

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 tax payable resulting from the tax charge in 2009 of € 1.2 million was accounted for on the Balance Sheet under the current account with Alliander N.V.

The Fair value CCIRS is a result of a restructured tax position in 2009.

[4] Derivative financial instruments

	<u>2009</u>	<u>2008</u>
Cross currency interest rate swap - fair value to P&L	6,125	2,785

The fixed rate on the euro leg of the swap is 4.1% (2008: 4.1%) and the floating interest rate USD LIBOR. The notional principal amounts of the outstanding cross-currency interest

rate swaps were USD 81.4 million (2008: USD 81.4 million). These interest rate swaps are no longer subject to hedge accounting. For further information please refer to note 14.

[5] Trade and other receivables

	<u>2009</u>	<u>2008</u>
Current account Alliander N.V.	2,084,934	795,322

The current account with Alliander N.V. bears interest at 5.0% (2008: 5.4%)

Trade and other payables

	<u>2009</u>	<u>2008</u>
Interest	44,361	1,402
Accruals and deferred income	225	95
	<u>44,586</u>	<u>1,497</u>

Interest € 43.0 million is due on 20 April 2010 and € 1.4 million is due on 17 December 2010.

[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 01-01-2008	New loans	Early repayments	P&L charge	Fair value hedge	Translation difference	within 1 year	Balance 31-12-2008
Medium Term Notes	793,810	-	-	-	6,190	-	-	800,000
MTNotes - Amortized Costs	4,881	-	-	298	-	-	-	4,583
Medium Term Notes Total	788,929	-	-	298	6,190	-	-	795,417

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

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

Effective interest rate	<u>2009</u>	<u>2008</u>
EUR	4.7%	4.3%
Repayment and interest schedule	<u>2009</u>	<u>2008</u>
1- 2 years		
2 - 3 years	500,000	
3 - 4 years		-
4 - 5 years	500,000	-
> 5 years	<u>1,050,000</u>	<u>800,000</u>
Total	2,050,000	800,000
<i>Amortized costs</i>	<i>12,377-</i>	<i>4,583-</i>
Book value	2,037,623	795,417

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

[9] Employees

During the year the average number of employees was nil (2008: nil).

[10] Directors' remuneration

The directors received no remuneration in respect of their services during the year (2008: 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:

	2009	2008
Audit of the financial statements	18	11
Audit related	-	-
Tax advice	-	-
Other	-	-
	<u>18</u>	<u>11</u>

[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 foreign currency and 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 potential 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 seeks to mirror this practice insofar as possible in its accounts through the application of hedge accounting. 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.

The Alliander group (not Alliander Finance) has provided collateral by way of deposits in foreign currency. These securities cover issued letters of credit relating to cross border lease transactions and are hedged by Alliander Finance by means of cross currency interest rate swaps. In relation to this the Alliander group had provided collateral for an amount of USD 42,1 million (€ 29.4 million) as at 31 December 2009 (2008: USD 79.3 million/ € 56.8 million). To mitigate the cash flow risk on the collateral two cross currency interest rate swaps are issued.

- *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.

€ thousand	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 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)	<u>-1,689</u>	<u>169</u>	<u>-169</u>	<u>0</u>	<u>0</u>
31 December 2008					
Exposure in USD in Alliander group companies: not Alliander Finance	56,843	-5,684	5,684		
Hedged position in USD: Alliander Finance	-58,410	5,841	-5,841		
Sensitivity cash flow in USD (net)	<u>-1,567</u>	<u>157</u>	<u>-157</u>	<u>0</u>	<u>0</u>

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	
	2009	2008
EUR 1		
USD	1.43	1.40

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'.

Earlier of maturity or re-pricing	Effective interest rate	Variable/ fixed	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Book values in € thousand						
31 December 2009						
Other receivables						
Trade and other receivables	5.0%	Fixed	2,084,934	0	0	2,084,934
Cash and cash equivalents		Variable	14	0	0	14
Total assets			2,084,948	0	0	2,084,948
Loans received						
Euro Medium Term Notes	4.65%	Fixed		-1,000,000	-1,050,000	-2,050,000
Euro Commercial Paper		Variable				0
Derivatives						
Cross currency interest rate swaps		Variable	56,870	-56,870	0	0
Total liabilities			56,870	-1,056,870	-1,050,000	-2,050,000
31 december 2008						
Other receivables						
Trade and other receivables	5.4%	Fixed	795,322	0	0	795,322
Cash and cash equivalents		Variable	-393	0	0	-393
Total assets			794,929	0	0	794,929
Loans received						
Euro Medium Term Notes	4.3%	Fixed	0	0	-800,000	-800,000
Derivatives						
Cross currency interest rate swaps		Variable	58,410	0	-58,410	0
Total liabilities			58,410	0	-858,410	-800,000

At year-end 2009 Alliander Finance had no outstanding interest rate swaps. Alliander has outstanding cross currency interest rate swaps for a nominal amount of USD 81.4 million (€ 56.9 million, 2008: USD 81.4 million/€ 58.4 million); these are explained further in the section on currency risk. The amount of the underlying principal sums that is converted from a fixed to a variable interest rate is € 56.9 million (2008: € 58.4 million) and is presented in the table above. All underlying loan items have a maturity date no longer than five years.

Sensitivity analysis

Sensitivity analysis in relation to fair value for fixed-interest assets and liabilities

Alliander Finance has entered into cross currency interest rate swaps, which are subject to sensitivity to market interest rates. 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 2009 would, assuming all other circumstances remain unchanged, have a pre-tax effect on Alliander Finance's other comprehensive income on an annual basis (financial income and expenses) as indicated in the table below.

€ thousand	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 2009					
Variable rated instruments	14	0	0	0	0
Interest rate swaps	56,870	569	-569	0	0
Sensitivity cash flow (net)	56,885	569	-569	-	-
31 December 2008					
Variable rated instruments	-393	4	-4	0	0
Interest rate swaps	58,410	584	-584	0	0
Sensitivity cash flow (net)	58,017	588	-588	-	-

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 2009 amounting to € 10.7 million (2008: € 12.4 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 2009 the cash flow hedge reserve amounts to € -7.9 million net of deferred tax (2008: € -9.3 million).

€ thousand	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
2009							
Currency risks							
Cross currency interest rate swaps		-	-	-	-		-
Interest rate risks							
Interest rate swaps	-	(12,438)	-	-	-	1,778	(10,660)
Total 2009	-	(12,438)	-	-	-	1,778	(10,660)
2008							
Currency risks							
Cross currency interest rate swaps		321	(321)	-	-		-
Interest rate risks							
Interest rate swaps	-	(14,403)	-	-	-	1,965	(12,438)
Total 2008	-	(14,082)	(321)	-	-	1,965	(12,438)

*Credit risk**General*

Credit risk arises as a result of the financing activities of Alliander Finance. Credit risk is the loss incurred through a counterparty's lack of willingness or lack of ability to perform. A consistent 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 2009, Alliander Finance owns € 2,084.9 million from Alliander N.V. (2008: € 795.3 million). The credit rating of Alliander N.V. as per the end of 2009 was as follows:

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

Maximum credit risk

The maximum credit risk is the balance sheet value of each financial asset, with the exception of the instrument cross-currency interest rate swaps.

As per the end of 2009, the maximum credit exposure of these instruments with a carrying value of € 6.1 million (2008: € 2.8 million).

*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.

Alliander Finance has a committed credit facility for the amount of € 875 million which expires in November 2011. Alliander Finance can make use of this facility at all times provided that certain covenants are met. Alongside the committed credit facility, Alliander Finance has an Euro Commercial Paper programme of € 1.5 billion. None of the facilities are used at the present moment.

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.

		Less than 1 year	Between 1 and 5 years	Over 5 years	Total
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
Interest rate instruments					
Interest rate swaps*					
Interest payments		0	0	0	0
Interest receipts		0	0	0	0
Total interest rate swaps		0	0	0	0
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	0	13,103
Total	-2,031,498	-93,475	-1,330,297	-1,200,000	-2,623,772
31 December 2008					
Loans received					
Notional amounts	-795,417	0	0	-800,000	-800,000
Interest		-34,125	-136,500	-101,625	-272,250
Interest rate instruments					
Interest rate swaps*					
Interest payments	0	0	0	0	0
Interest receipts		0	0	0	0
Total interest rate swaps		0	0	0	0
Forex instruments					
Cross currency interest rate swaps*	2,785				
Payments interest and notional amounts		-2,865	-11,849	-61,946	-76,660
Receipts interest and notional amounts		2,498	9,993	63,062	75,553
Total cross currency interest rate swaps		-367	-1,856	1,116	-1,107
Total	-792,632	-34,492	-138,356	-900,509	-1,073,357

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 2009 that are different from their book value.

Classes	Note	Book value IAS 39 categories				Total	Fair value
		Fair value through profit or loss	Loans and receivables	Other liabilities	Off balance sheet commitments		
31 December 2009							
Loans received	7	0	0	2,033,891	0	2,033,891	2,261,174
31 December 2008							
Loans received	7	0	0	795,417	0	795,417	840,027

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;
- The fair value of borrowings is determined making use of market quotes, or if unavailable, by calculating their present value at the yield curve applicable to Alliander N.V. as at 31 December. This yield curve is derived from the zero coupon rate plus the credit spread applicable to Alliander N.V.

At year-end 2009 the following yield curve was applied:

1-year	1.69% (2008: 4.55%)
5-year	3.34% (2008: 5.25%)
10-year	4.52% (2008: 5.74%)
20-year	5.26% (2008: 5.88%)

- 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:

€ thousand	2009	2008
Net result on derivatives held for trading		
Fair value changes forex instruments	2,798	-1,579
Fair value changes interest rate instruments		
Net result on financial liabilities at amortised cost		
Interest charges on financial liabilities at amortised cost	-77,228	-43,470
Interest gains on Trade and other receivables and Cash and cash equivalents	88,159	45,176
Received and paid fees other than for the calculation of the effective interest rate	-5,990	-1,997
Amortisation of cash flow hedges from equity to income statement	-1,778	-1,965
Exchange difference results	-730	9,332
Net result on fair value hedges of the underlying item		-6,190
Net result on fair value hedges of the hedging instrument		6,190
Net financial income and expenses	5,231	5,497

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

€ thousand	2009	2008
Effective part of changes in fair value of cash flow hedges	0	-321
Net change in fair value of cash flow hedges transferred to the income statement	1,778	1,965
Total recorded in cash flow hedge reserve	1,778	1,644

Arnhem, 7 April 2010

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 profit after taxation for 2009 to Shareholders' Equity.

Subsequent events

The credit rating of Alliander, the parent company, is on 11 March 2010 revaluated by Moody's and is upgraded from A2 to Aa3.

There have been no further subsequent events after December 31, 2009.

Auditor's report

Report on the financial statements

We have audited the accompanying financial statements 2009 of Alliander Finance B.V., Arnhem as set out on pages 4 to 27, which comprise the balance sheet as at 31 December 2009, the income statement, the statement of comprehensive income, the 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's responsibility

Management of the company is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the report of the management board in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 judgement, 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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.

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 2009, 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 Netherlands Civil Code.

Report on other legal requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the report of the management board is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Rotterdam, 7 April 2010

PricewaterhouseCoopers Accountants N.V.
J.A.M. Stael RA