2020 Half-Year Report

STEDIN GROEP

Disclaimer

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Stedin Group is not required to revise the expectations and forecasts in this half-year report in response to new information or events and does not accept any liability in this respect. This half-year report has not been audited. The report is published in Dutch and English. In case of any discrepancy between both versions, the Dutch version will prevail.

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Report of the Board of Management

We are facing a unique situation in the Netherlands. The nation-wide measures that were implemented to contain the spread of the coronavirus touch all of us in one way or another. Given the nature of our company, we are less severely affected than businesses in the hospitality sector or airlines, for example. Nonetheless, the coronavirus crisis also affects Stedin Group. Fortunately, the consequences have proven to be manageable. Despite the measures, we have continued to work 24/7 in order to ensure a safe and reliable grid. We are proud of these efforts.

Overnight, a large proportion of our staff switched to working from home, projects were put on hold, the roll-out of smart meters came to a virtual standstill and we saw a decline in orders from customers. Much of our work continued as normal, however. As a company in a critically important sector, we have an important responsibility: maintaining the energy supply to our 2.2 million customers. We carried on performing our fault repair and maintenance work. A leading priority during the first half of the year was to ensure a safe and reliable energy supply.

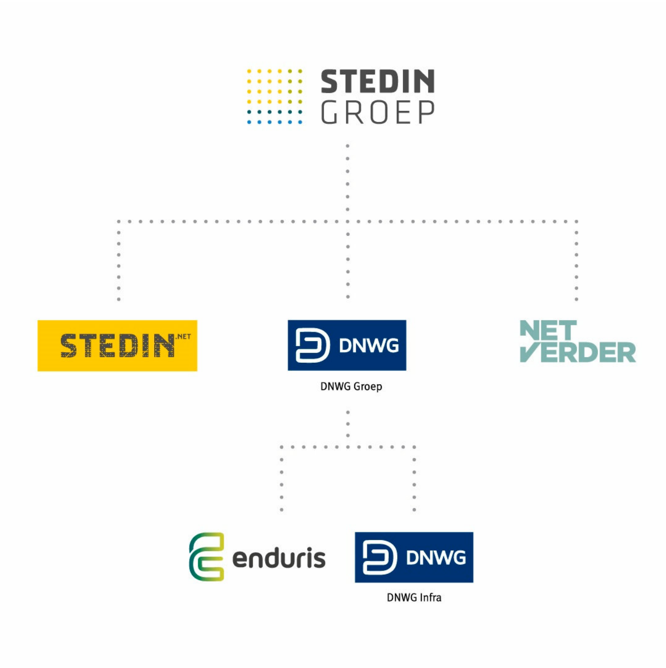
The coronavirus crisis also has limited financial implications for Stedin Group. In the first half of 2020, we achieved an operating result of € 62 million (2019: € 88 million). The number of orders and the energy consumption of business customers both decreased in the previous six months. TenneT's higher transmission costs also pushed down the result. This situation has a negative impact on our revenue. The lower level of activity was partly offset by scaling back slightly on external staff and through the broader deployment of our fitters. Despite the coronavirus crisis, we made a further substantial investment in a future-proof grid, committing € 268 million (2019: € 306 million).

The past few months have required a great deal of adaptability and flexibility from our employees and partners. This has enabled us to continue our work. We would like to thank everyone for that. The second half of this year we continue to work together to achieve our ambitions and to catch up on missed work as much as possible.

Board of Management
Marc van der Linden, Danny Benima, Judith Koole, David Peters

Profile

More than 2.2 million private and business customers rely on Stedin Group for their energy supply, day and night. We are proud that our grids are among the most reliable and cost efficient in the world.



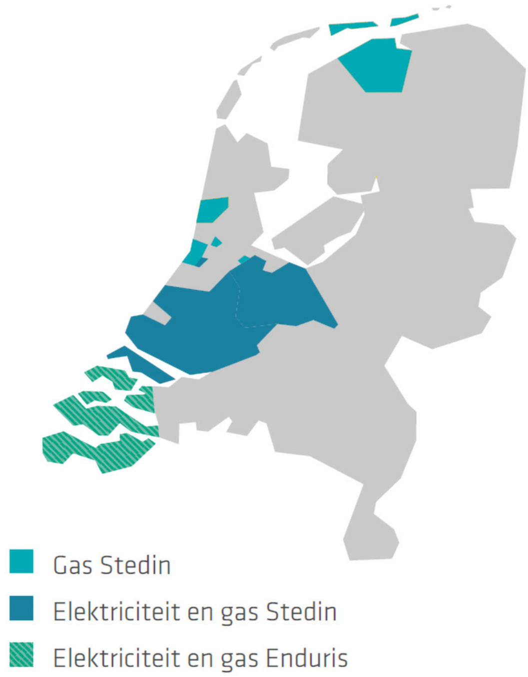
Business units of Stedin Group

Grid managers

The electricity and gas grids are a key element in the overall energy system. The grid managers within Stedin Group, Stedin and Enduris, are responsible for the regional distribution of electricity and gas. Stedin Group operates and has its registered office in the Netherlands. We carry out regulated activities as a grid manager and we also perform a number of non-regulated activities as a group. Our head office is located at Blaak 8 in Rotterdam.

Service area

We manage and maintain the energy grids in a large part of the Randstad conurbation as well as the provinces of Utrecht and Zeeland. Our service area is home to roughly 5.5 million people and covers three of the four largest cities in the Netherlands, the Port of Rotterdam and the Port of Zeeland, as well as large industrial and glasshouse horticulture regions. Parts of the provinces of North Holland and Friesland also fall within this area.



Mission, vision and strategy

Working together to create an environment filled with new energy: that is our mission. Together, we are working to ensure a sustainable energy supply for today and tomorrow. We believe that we can make the energy transition possible by focusing on our core tasks for (future) grid management and delivering an excellent service for our customers. We have identified three strategic spearheads:

- Improved grid management
- Facilitating the energy transition
- Sustainable business operations

Improved grid management

Despite the impact of the coronavirus and the nation-wide social distancing measures, most of our work continues as normal. We are committed to ensuring a reliable grid, satisfied customers as well as high-quality products and services.

Adjusting to social distancing measures

After an initial period of avoiding the performance of work at customers' homes, we began testing how we could safely restart our work programme. Backed by our positive experiences, we slowly extended this programme further, making sure to guarantee the safety of our customers and fitters at all times. We ensure that contact between our customers and fitters is kept to a minimum as far as possible,in compliance with the guidelines issued by the National Institute for Public Health and the Environment (RIVM). This process demands flexibility and adaptability from all involved.

Versatile deployment of fitters

We are taking steps to minimise the impact of the coronavirus by exploring inventive approaches to work and staff deployment. The reassignment to other business units of fitters whose work has ground to a halt provides a good example of intra-organisational cooperation. Junior fitters are also receiving additional training with a view to broader deployment from the outset.

Reliability of our grids

We carried on performing our fault repair and maintenance work during the past six months. The only exception is maintenance work requiring a lengthy scheduled interruption. With many people now working from home due to coronavirus-related measures, we have chosen to carry out this work at a later time. Our fault incidence rate has improved relative to the previous year. Customers were without electricity for an average of 9 minutes in the first six months of this year. Stedin Group recorded an average downtime of 10 minutes in the first half of 2019. The average downtime for gas was 13 seconds in the first half of 2020, compared with 56 seconds in the first six months of 2019.

Continuing investment

Despite the coronavirus crisis, Stedin Group continues to make substantial investments in critical infrastructure. We invested € 268 million in the first half of 2020 (2019: € 306 million). This figure is less than expected. Measures to combat the coronavirus outbreak have resulted in several large projects being deferred. We are making efforts to catch up with this work as much as possible. By contrast, some work was brought forward. For example, at Stadhuisplein in Rotterdam, 130 metres of cast iron gas mains were replaced considerably sooner than planned. With businesses nearby being closed, the decision to accelerate the execution of the work means that disruption can be avoided later in the year.

Smart meters

We originally intended to complete the roll-out of smart meters by the end of this year. However, social distancing measures brought work to install smart meters for customers to a virtual standstill in the period from March to May. As a result, only 83,523 smart meters were offered in the first half of this year, 39.8% below our target of 138,700 offers. In the first half year, 85.9% of offers resulted in installation. We are making efforts to catch up with the work as much as possible. As a consequence, we do not expect that we will be able to complete the roll-out this year. The regional grid managers are currently consulting with the Ministry of Economic Affairs and Climate Policy on this matter.

Customer satisfaction

On 1 January 2020, Stedin introduced a new method to measure customer satisfaction: the Customer Effort Score (CES). This method allows us to measure customer ease. In this survey, customers decide themselves what they consider to be important. For the first half year, 73% of customers report low- or very low-effort service experiences. This finding contrasts with 17% of customers who report high- or very high-effort service experiences. Customers give us a positive service rating for remedying failures as well as meter replacement. Installation and replacement of connections are still accompanied by considerable inconvenience, particularly when it comes to scheduling appointments and communication. Therefore, a customer contact team is set up to inform customers personally about the progress of their request.

Lead time of completing connections

In the first half of 2020, 82% of connections were provided within 18 weeks or on the date preferred by the customer. This figure is 8% below the target of 90%, which is mainly attributable to work at customers' homes coming to a standstill under the impact of the coronavirus crisis. In addition, the volume of requests in the fourth quarter of 2019 was greater than expected. We will continue our efforts to catch up with the work in the second half of 2020.

Facilitating the energy transition

We are working day and night on a future-proof grid. We are investing in the infrastructure that is needed to connect solar and wind farms as well as to transmit the electricity that is generated; We are making preparations to ensure that residential districts can switch to sustainable energy and we are working to create an infrastructure that will enable an increasing number of electric cars to charge or discharge their batteries.

Making our grid smarter

We are investing in smarter technology for our electricity grid to give us more and better insight into the energy flowing through the grid as well as to help us rectify faults more quickly. This insight also improves our capacity to predict and manage, so the voltage quality is maintained. Smarter also means using the existing infrastructure differently; for instance, by using the gas grids for sustainable gases such as hydrogen. This process will help us to ensure that the energy transition remains affordable.

Regional Energy Strategy

The commitments in the Climate Agreement relating to electricity and the built environment require each region to develop a Regional Energy Strategy, or RES. The Netherlands has 30 RES regions. Stedin is closely involved with 14 RES regions, while we manage both the electricity and the gas grid in 9 of them. In the RES regions, we work together with other parties to facilitate the energy transition at the regional level. We join with local authorities, businesses, residents as well as civil-society groups to examine where large-scale sustainable energy can be generated and which alternative sources of heat are available.

Stedin conducts a grid impact assessment for each RES region, which provides insight into the effects of the regional ambitions on our infrastructure. This approach helps us to anticipate better which adjustments in our grids are necessary and what the related financial impact is. The plans should be finalised by 1 July 2021. In March, Zeeland became the first region in the Netherlands to present its RES.

Opening Bid

In February, Stedin presented the Heat Transition Opening Bid service to the municipalities in its service area. The outcomes of this service assist municipalities in choosing a future-proof heat supply for each individual district. Municipalities can view these outcomes together with a detailed explanation online. The generic results for each Regional Energy Strategy (RES) region are also available on our website.

Making industries more sustainable

In the spring, the Climate Agreement on Industry Infrastructure Task Force (TIKI) presented its report on the energy infrastructure for making industry more sustainable to the Minister of Economic Affairs and Climate Policy. This Task Force consisted of Hans Grünfeld (VEMW), Carolien Gehrels (Arcadis) and Marc van der Linden (CEO of Stedin and Chairman of Netbeheer Nederland). The Task Force examined the type of infrastructure that the industry needs to meet the commitments in the Climate Agreement. This challenging task will require substantial investments and clear commitments. Among other things, the TIKI report calls for the creation of a new main energy infrastructure expressly configured for hydrogen as well as the storage and reuse of CO_2.

Sustainable business operations

We are increasing our investments in order to fulfil our role in the energy transition and ensure the ongoing reliability of our energy grid. At the same time, we are keen on keeping customers' energy bills affordable and on being capable as an organisation of continuing to finance these investments, which presents a challenge. The emphasis is therefore on efficient working practices and saving costs.

Efficient working practices

The five-year efficiency programme that we launched in 2018 continues to be implemented. We are on schedule to achieve the total savings of € 150 million which the programme was intended to yield. Each year, we examine whether the efficiency programme can and should be expanded and/or extended.

Long-term financing

We are investing more each year in a future-proof infrastructure. These investments are in addition to the ongoing investments that are required in order to ensure the proper operation of the electricity and gas grids. The present regulatory regime does not provide for a reduced payback period of investments. This situation places a heavy demand on our financial position. Stedin Group consequently expects that it will need an additional € 750 million to € 1 billion in equity over the coming years for these investments to be made.We are therefore exploring the possibilities with our shareholders to strengthen the balance sheet of Stedin Group. Together with other grid managers, we are also in discussions with the regulator to consider how the regulatory regime might be better aligned to these circumstances.

Key figures

	Unit	Achieved 30 June 2020	Target for 31 December 2020	Achieved on 30 June 2019
Investments	€ million	268	669	306
LTIR*	ratio	1.45	1.95	1.76
RIF **	ratio	0.82	0.90	0.90
Customer ease vs customer inconvenience with Stedin	%	73 / 17	68 / 19	71 / 11***
Customer satisfaction with DNWG****	Rating	7.5	7.5	7.8
Connections provided within 18 weeks	%	82	90	86
Average downtime for electricity	min.	9	17	10
Average downtime for gas	sec.	13	60	56
Smart meters offered	%	92.3	100	82.2
Completion rate of smart meter installations *****	%	79.7	80	79.3

* Lost Time Injury Rate
** Recordable Incident Frequency
*** Up to 1 January 2020, customer satisfaction was measured by Stedin. The first figure indicates the percentage of customers that rates the service provided with a score of 8 or higher, while the second figure is the percentage of customers that gives the service a rating of 5 or lower.
**** Customer satisfaction with DNWG is measured differently, i.e. with customer ratings, from Stedin. We report the average customer rating here.
***** Number of smart meter installations compared with the number of offers throughout entire large-scale roll-out period.

2020 consolidated interim financial statements

Consolidated interim financial statements

Consolidated income statement

x € 1 million	First half of 2020	First half of 2019
Net revenue and other income	609	620
Operating expenses	-547	-532
Operating profit	**62**	**88**
Financial income and expenses	-28	-35
Profit after income tax from associates and joint ventures	0	251
Profit before income tax	**34**	**304**
Income tax	-9	-13
Profit after income tax	**25**	**291**

Consolidated balance sheet

x € 1 million	As at 30 June 2020	As at 31 December 2019
Assets		
Non-current assets	7,119	6,989
Current assets	350	300
Total assets	**7,469**	**7,289**
Equity and liabilities		
Total equity	2,919	2,949
Non-current liabilities	4,003	4,019
Current liabilities	547	321
Total equity and liabilities	**7,469**	**7,289**

Consolidated cash flow statement

x € 1 million	First half of 2020	First half of 2019
Cash flow from operating activities	143	225
Cash flow from investing activities	-222	9
Cash flow from financing activities	115	-322
Movements in cash and cash equivalents	**36**	**-88**

Accounting principles for financial reporting

Stedin Holding N.V. (below: Stedin Group) is a public limited liability company under Dutch law with its registered office in Rotterdam, a holding company of subsidiaries, and is registered with the Chamber of Commerce under number 24306393.

Stedin Group's main activity is to ensure safe, reliable and affordable energy supply. The grid managers of Stedin Group, Stedin Netbeheer and Enduris, achieve this on the one hand by building and managing the electricity and gas networks and preparing them for the future and on the other hand by facilitating the energy market. Stedin Netbeheer operates in the provinces of South Holland and Utrecht as well as parts of the North-East Friesland and Kennemerland regions. Enduris operates in the province of Zeeland. The subsidiary DNWG Infra provides energy infrastructure services to business customers. Utility Connect is a joint operation with Alliander that focuses on data communication for smart meters.

Stedin Netbeheer and Enduris operate alongside five other Dutch regional grid managers in a regulated market. Each regional grid manager is a monopolist within its own service area. Regulation means that the work performed by the grid operator is set out in law, and that the rates are set by the Netherlands Authority for Consumers and Markets (ACM). The regulatory model encourages grid managers to perform as well as possible (in terms of efficiency and quality) by using a benchmark model.

This half-year report contains the interim financial statements of Stedin Group for the first half of 2020. The half-year report has not been audited, nor has an independent auditor review been made. This report does not contain all the information that is normally included in financial statements and therefore the half-year report should be read in conjunction with the 2019 financial statements. The half-year report applies the same accounting policies and basis of consolidation as the 2019 consolidated financial statements.

In preparing this half-year report, the management of Stedin Group used judgements, estimates and assumptions which affect the reported amounts.No significant changes in accounting estimates occurred in the first half of 2020 compared with the estimates in the 2019 financial statements which require further explanatory comment.

Events and transactions during the first half of 2020

Consolidated income statement

In the first half of 2020, we achieved an operating result of € 62 million (2019: € 88 million). This figure is € 26 million less than in the first half of 2019, when four months of revenue were included from Joulz Diensten, which has since been sold. TenneT's higher transmission costs also pushed down the result. However, the operating result is € 12 million more than expected. This result can be largely explained by the fact that the costs of network losses were lower due to reduced energy prices and due to the roll-out of our efficiency programme. The impact of the coronavirus pandemic has had a minor negative effect on our revenue. While the cost of external staff has been scaled back to a lower level of activity, our own support services largely remain intact. Due to a lower level of activity, fewer costs are allocated to network investments.

Consolidated balance sheet

Investments in property, plant and equipment and intangible assets in the first half of 2020 amounted to € 268 million, a decrease of 12.42% (2019: € 306 million). Investments were made in customer-driven and grid-driven assets, smart meters as well as other assets. The social distancing measures that were introduced to contain the spread of the coronavirus led to part of the work being rescheduled or temporarily deferred. This fact is reflected in lower investment growth during the first half of the year and higher costs of executing work due to safety measures as part of the 'new normal'. Our investments were financed by borrowing € 175 million in short-term loan capital.

Consolidated cash flow statement

The cash flow from operating activities decreased due to a lower operating result, adjusted for depreciation. To a large extent, the negative cash flow from investing activities can be explained by the investments made in the network. The positive cash flow from financing activities of € 115 million is attributable to the raising of loan capital, changes in working capital and dividend payments. On 29 May 2020, a net dividend distribution of € 44.2 million was made, followed by the payment of € 7.8 million in dividend tax on 9 June. Dividend payments made for the 2019 financial year amounted to € 52 million in total.

Financing, solvency and credit rating

Stedin Group did not raise or repay any significant new long-term loans in the first half of 2020. In order to manage its short-term liquidity position, Stedin Group issued € 100 million under the ECP programme effective 30 June 2020 and additionally raised a private loan of € 75 million.

Solvency at 30 June 2020 was 44% (year-end 2019: 44.9%). Stedin Group's policy is aimed at maintaining minimum long-term solvency of 40%. Stedin Group's goal is to retain a long-term A- credit rating according to Standard & Poor’s (S&P). Consequently, there is an adequate buffer for complying with the minimum credit rating requirement pursuant to the Network Operators Financial Management Decree (Besluit Financieel Beheer Netbeheerders) (a minimum rating of BBB/Baa2).

The ratio FFO/Net Debt rose to 12.5 on 30 June 2020, from 12.3 at year-end 2019. FFO rose despite the lower operating result (EBITDA). This rise is largely attributable to the timing of tax payments and a decrease in interest paid. The net debt position (Net Debt) on 30 June 2020 also rose due to the raising of short-term finance.

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