Half-year report 2018

Stedin Group

STEDIN GROEP

Disclaimer

This report contains forward-looking statements and perspectives. These can be recognised from words such as 'anticipate', 'intend', 'estimate', 'assume', 'expect' and similar terms. Actual results and events may differ from current expectations, partly because of risks and uncertainties beyond Stedin's control, such as economic trends, technological developments, changes in legislation and regulations and financial risks.

Stedin Group* is not required to revise the expectations and forecasts in this report in response to new information or events and does not accept any liability in this respect.

The half-year report has not been audited.

* Stedin Group includes Stedin Holding N.V. and its subsidiaries

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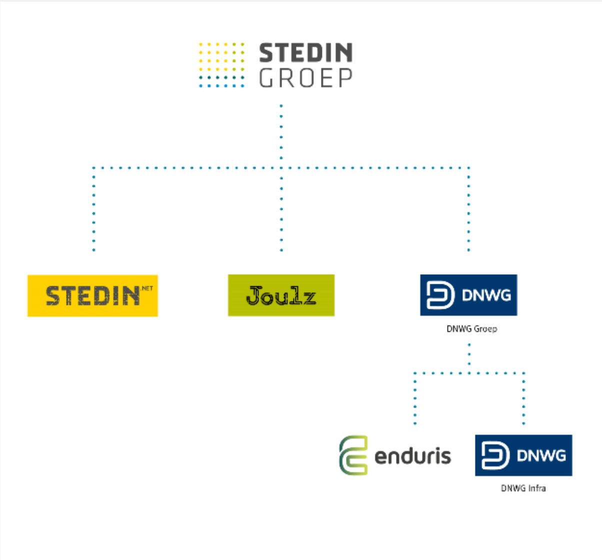
Report of the Board of Management

In the first half of 2018, Stedin Group realised an operating result of €121 million (2017: €87 million). We are satisfied with these results, which are in line with our expectations. We are investing heavily in today's and tomorrow's energy supply: €282 million in the first half of 2018 (2017: €213 million). However, we also realise that we cannot get ready for the future on our own. Cooperation is growing ever more essential and we will continue to look out for partners going forward as well.

The Netherlands is working towards an environment filled with new, sustainable energy. Words such as climate agreement, energy transition and gas-free are no longer reserved for environmental protection organisations but are mainstream nowadays. Our customers' understanding of what the energy transition will mean for them is deepened by every article on it in newspapers and every report on the radio or TV. Today, solar panels on roofs, electric cars in front of the house and heat pumps instead of central heating boilers are the key ingredients for many of our customers for a future in which greenhouse gas emissions have been drastically reduced.

Profile

Stedin Group comprises the business units Stedin, Joulz and DNWG. DNWG consists of Enduris and DNWG Infra. Stedin Group has 53 Dutch municipalities as its shareholders.



Business units of Stedin Group

Grid operators

The grid operators within the group are Stedin Netbeheer B.V. and Enduris B.V. They operate within a regulated market, which means that they have a monopoly within their area of operations. Stedin manages the energy grid and more than 2 million connections in the provinces of Zuid-Holland and Utrecht as well as in parts of the Noordoost-Friesland and Kennemerland regions. Enduris manages the energy grid and around 200,000 connections in the province of Zeeland.

Non-regulated activities

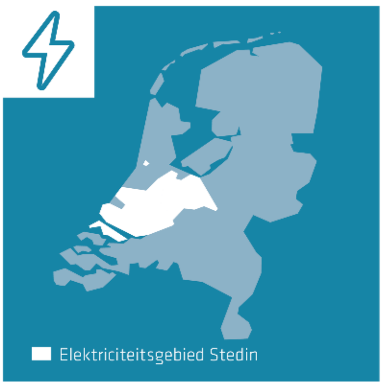
The business units Joulz and DNWG Infra operate in the non-regulated domain. In 2018, we announced the sale of the commercial activities of the business unit Joulz Energy Solutions to Visser & Smit Hanab, which is part of Koninklijke VolkerWessels. This sales process will be completed in the second half of 2018.

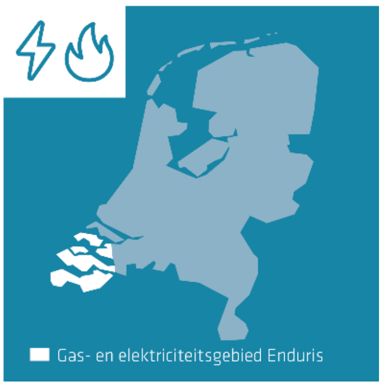
Mission, vision and strategy

Stedin Group presented its mission at the start of 2018: Working together to create a lifeworld filled with new energy. As Stedin Group, we believe that our principal task is the joint facilitation of the energy transition, so customers have a reliable, affordable, safe and sustainable supply of energy in order to live, work and do business, both today and tomorrow. We are committed to working towards this goal every day.

Focus will be required for us to realise our ambition and prepare ourselves well for a number of significant challenges ahead. We have opted to focus on core tasks for present and future grid management that delivers an excellent service to our customers. All business units are focused on strengthening the tasks for grid management today and tomorrow. With innovative solutions and partners, we are building the energy system of the future. In doing so, we aim to be a transparent, independent and natural partner in discussions for those around us. As ambassadors of the energy transition, we are a good employer for our employees. In our business operations, we work on furthering reducing our own environmental footprint in using energy and raw materials. This vision requires a clear strategy for us to pursue over the next years. The strategy comprises three spearheads:

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





Improved grid management

We focus on the core tasks for present and future grid management that delivers an excellent service for our customers. In the first half year of 2018, this focus included working on the following:

Investments

Our energy grid is set to change in the next few decades. For instance, we are expecting a far-reaching electrification of built-up areas. However, this development does not discharge us from the task of properly managing the energy system of today. We will continue to invest substantially in 2018 (€282 million in the first half of 2018) in a safe, robust and future-proof electricity and gas grid. Where possible, we work with other network operators such as water companies to carry out joint work underground. This approach reduces inconveniences for customers while also enabling us to deploy our contractors more efficiently. Cooperation may, for instance, include sharing soil data and working jointly in connection with tender procedures.

New customers

We are also seeking to cooperate in the construction of new grids. In the coming years, according to the Dutch Housing Agenda (Nationale Woonagenda), around 75,000 new houses need to be built on an annual basis. The current process to build new residential areas, for instance, is highly complex due to the number of parties involved: property developers, housing construction companies, water companies, telecommunications companies and grid operators. They all need to work with a tight but at the same time flexible agenda, both in their preparations and on the construction site itself. For this reason, Stedin recently started an initiative to explore the working method which assigns control of the mains services construction process to the construction company. This type of cooperation will see building projects completed faster. At the same time, we are exploring whether this working method can be used to facilitate the transition to a natural gas-free society. Over the next few decades, we will need to seek alternatives to natural gas for around 6,000 dwellings every month. We expect that allocating our work in a different way enables us to free up more mechanics' capacity to achieve that transition.

Strategic personnel planning

One thing is certain: the coming years will see more rather than less work coming our way. However, the growing shortage of technical personnel will be a challenge. Moreover, demand also exceeds supply in the labour market for specialists in the fields of digitisation and cyber security. We are trying different methods to recruit new personnel and retain current employees. The company is not only focusing on young people leaving education with a diploma, but it is also considering people coming from other professions and asylum residence permit holders who will be trained to become mechanics in the Stedin company training centre, for example.

Stedin Group applies key performance indicators for improved grid management, including the following:

Performance indicators	Achieved in first half of 2018	Target for first half of 2018	Achieved in full-year 2017
Investments	€282 million	€261 million	€490 million
Customer satisfaction (%) (excl. DNWG)*	68	>67	66
Average downtime for electricity (excl. DNWG)	8.8 minutes	<8.5 minutes	16.6 minutes
Average downtime for gas (excl. DNWG)	17 seconds	<30 seconds	40 seconds
Number of smart meter offers	167,080	184,250	373,841
Completion rate of smart meter installations	82.1	>82	78.5

* Percentage of customers awarding the services provided a score of at least 8

Facilitating the energy transition

We intend to facilitate the energy transition through innovation and by cooperating closely with partners. Significant events in the first half year:

Climate Agreement

Making the Netherlands CO2-neutral is not easily achieved and requires a broad-based transformation in society as a whole. The imminent Climate Agreement, and the climate tables of Minister Wiebes in its wake, will help to bring this situation about. Stedin is actively involved in the tables Built environment (Gebouwde Omgeving), Electricity (Elektriciteit) and Industry (Industrie). There is one thing that we know for certain as grid operator: virtually the whole energy system in our service area will be transformed.

We will not address this challenge on our own but together with local authorities, partners and customers. In the years ahead, the intensity of dialogue will have to be stepped up even further during the implementation of the Climate Agreement to ensure timely clarification of plans for the charging infrastructure, electric buses and heavy goods traffic, gas-free districts, wind and solar farms or making industry more sustainable. Only then can everyone continue to use the most reliable energy system in the world during this large-scale and multi-year operation.

Cooperation

A long-held wish of ours was recently fulfilled: the duty to connect newly-built homes to the natural gas grid is being scrapped from legislation. In anticipation of this change in the law, we signed the Gas-Free Newly-built Homes Covenant with 50 municipalities and the provinces of Zuid-Holland and Utrecht. Under this covenant, provinces, municipalities and the grid operator are joining forces to convince project developers and their clients of using our voluntary switch-over scheme and opting for a sustainable alternative instead of natural gas.

We have already taken the next step with some municipalities to make existing housing gas-free. For instance, we are working with housing association Mitros to remove gas for cooking in housing in Utrecht-Overvecht. In Woerden, we are also helping to make the Schilderskwartier neighbourhood gas-free. We are thus taking significant steps in our search for alternatives to natural gas.

In addition, we are seeking to cooperate within Stedin Group. Although DNWG is a separate unit of Stedin Group, DNWG and the grid operator Stedin collaborate as much a possible. For example, DNWG carries out numerous activities for Stedin on the island of Goeree-Overflakkee in the province of Zuid-Holland.

Innovation

The future plans in the Climate Agreement concerning wind and solar energy lead to greater flexibility in energy supply. As a result, Stedin sees opportunities for applications such as 'flexibility' and 'blockchain'. In the first half of 2018, we undertook preparations for three new pilot projects in these areas. Two of these projects focus on reducing future capacity bottlenecks in our energy grid and involve the entire market chain. The third is a new pilot project in the Hoog Dalem district in Gorinchem, where neighbours can use blockchain for supplying energy to each other and thus create flexibility. We do so jointly with Energy Web Foundation.

This year, we also published our Flexibility Position Paper in which we call for the joint creation of a flex market. In our paper, we bundled our knowledge from the testing that we carried out over recent years in conjunction with market parties in Hoog Dalem, Couperus and Lombok, to name but a few. We also performed the Flex Acceleration Programme to help market parties test their ideas on deploying flexibility in our grid area. The various pilot projects demonstrated that deploying flexibility to prevent bottlenecks in a cost-effective manner is technically feasible.

Hydrogen

A study carried out by research institute KIWA and commissioned by Netbeheer Nederland shows that the existing gas network can be adapted for the use of hydrogen. Together with Delft University of Technology as well as grid companies Enexis Group and Alliander, Stedin Group is studying the application of hydrogen in the home. It does so in the 'Green Village'. Stedin Group sees the potential of hydrogen gas as a sustainable alternative to increase the sustainability of the built environment and, as a member of the Hydrogen Coalition, also signed the manifest on ‘Hydrogen as an essential element in the energy transition' ('Waterstof essentiële bouwsteen energietransitie’). The use of hydrogen in the existing gas network may be beneficial in specific cases. Take, for example, historic city centres with many listed buildings that are difficult to insulate and are therefore unsuited for full electrical heating. Moreover, we see hydrogen as an alternative to natural gas in heavy industry in particular. The Dutch Climate Agreement calls for a reduction of four megatons of CO_2 in 2030 through the production and use of hydrogen.

Large-scale roll-out of our smart meter offer

The smart meter offer encountered several unforeseen challenges in the first half of 2018. As a consequence, we are lagging behind the target set for 2018. Additional resources are being made available in the second half of 2018 to make up as much ground as possible.

Sustainable business operations

As ambassador for the energy transition, we are aiming for sustainable business operations. For example, we are increasing the sustainability of our vehicle fleet by switching to electric cars in the years ahead. We are also increasing the sustainability of our buildings. Our recently renovated office building in Utrecht is an example of this process. We are making major sustainability advances with regard to our 'grid losses'. Stedin has annual grid losses of one billion kilowatt hours (1 TWh), equivalent to the consumption of the whole of Rotterdam in one year and representing emissions of over 500 kilotonnes of CO_2. Together with energy supplier Eneco, Stedin recently signed a supply agreement for 400 million kilowatt hours of Dutch wind energy. This way, Stedin invests in increasing the sustainability of the Dutch energy landscape and is the first Dutch grid operator to enter into this kind of contract with a supplier.

The Lost Time Injury Rate (LTIR) in the first half year of 2018 exceeded the target. Most accidents involve slipping, falling or stumbling. The number of incidents relating to the primary business processes was limited.

Since 2001, Stedin Holding N.V. (formerly Eneco Holding N.V.) has a public corporate credit rating issued by Standard & Poor's (S&P). Following the unbundling of Eneco Group, Stedin Holding N.V. retained its S&P 'A- with a stable outlook' rating, which was reconfirmed in September 2017, and therefore Stedin Group has a high creditworthiness. Our goal is to retain the A- rating profile – a minimum credit rating of A/A2 with a stable outlook – in the long term. 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 'investment grade' rating of BBB/Baa2). There were no changes in our credit ratings in the first half of 2018.

Stedin Group applies key performance indicators for improved grid management, including the following:

Performance indicators	Achieved in first half of 2018	Target for first half of 2018	Achieved in full-year 2017
Lost Time Injury Rate (LTIR) *	4.75	≤1.90	4.88
FFO/Net debt position (%)**	12.3	>13.2	12.2
Solvency (%)	43.3	>42.8	43.3

* LTIR represents the number of lost time workplace incidents per million hours worked.

** This ratio is calculated according to the Standard & Poor's (S&P) method. Funds From Operations (FFO) divided by net debt position. FFO is EBITDA adjusted for lease costs, adjusted interest expense and tax expense. Net debt position is the sum of current and non-current interest-bearing debt, adjusted for the off-balance-sheet liabilities and the hybrid loan less cash and cash equivalents.

First half-year results

Net revenue

Net revenue realised in the first half year of 2018 amounted to €655 million, €87 million (15%) higher than in the comparable period of 2017. The increased net revenue in comparison with the previous year was almost wholly due to the contribution of DNWG (€84 million). We acquired DNWG from PEZM in June 2017 and DNWG's results are consolidated in Stedin Group's results from the second quarter of that year.

The adoption of IFRS 15 'Revenue from Contracts with Customers' had no material effect on the amount of our reported revenue. Stedin Group applies IFRS 15 with effect from 1 January 2018, using the modified retrospective approach. The amounts received in advance with regard to connection costs are from now on presented as net revenue, as a result of which these amounts are €10 million higher than under the approach applied in 2017 (other income).

Operating expenses

Compared with the first half year of 2017, operating expenses increased by €53 million (11%) to €534 million. The acquisition of DNWG in June 2017 resulted in an increase of €74 million. Adjusted for the acquisition effect of DNWG, our operating expenses decreased by €21 million compared with the same period in 2017. In the first half of 2017, we recorded higher expenses on an incidental basis related to the unbundling from the energy company Eneco.

Financial income and expenses

Our financial expenses relate mainly to the interest expense on long-term external loans. Net financial expenses amounted to €27 million in the first half of 2018, up €14 million (34%) compared with the same period of the previous year. Despite an increase in our interest-bearing debt, we managed to reduce the average interest rate on our loan portfolio significantly, as a result of which our interest expense nonetheless fell in absolute terms. In addition, interest income of €10 million was recognised that relates to statutory interest on a payment received after a protracted dispute in which the Amsterdam court of appeal ruled in Stedin's favour.

Income tax

Profit before income tax for the first half of 2018 increased by €48 million to €94 million (2017: €46 million). Corporate income tax payable rose by €12 million to €25 million. The effective tax rate for the first half of 2018 (as a percentage of profit before tax from continuing operations) is 26.6% (2017: 28.3%).

Result after tax from discontinued operations

There was no result after tax from discontinued operations in the first half of 2018. The result after tax from discontinued operations in the first half of 2017 was €338 million, and related to the unbundling from the energy company Eneco and to the sale of CityTec.

Investments

Investments in property, plant and equipment and intangible assets in the first half of 2018 totalled €284 million, an increase of €77 million (37%) compared with the same period in 2017 (€207 million). Within this increase, €31 million is attributable to the investments of DNWG. Much of our investment was in the gas and electricity distribution networks and the installation of smart meters. We are clearly seeing the effects of the improving economy and the higher building output as well as the concomitant increased demand for new connections. We are also seeing increasing customer requests in the run-up to the energy transition. The rising demand for connections for charging stations is a good example of this development.

Financing and liquidity

Our interest-bearing debt increased by €111 million to €2,864 million at 30 June 2018 (year-end 2017: €2,753 million). Cash and cash equivalents amounted to €58 million at 30 June 2018 (year-end 2017: €73 million). In addition to the cash and cash equivalents, Stedin Group has a committed credit facility (RCF) of €600 million (running to July 2024, none of which has been drawn down) that can be used for general operational purposes, financing working capital or debt refinancing. Stedin Group also has an ECP programme worth €750 million, under which €120 million was outstanding at 30 June 2018 (year-end 2017: €25 million). With this RCF and the ECP programme, we are comfortably able to meet any acute liquidity requirements.

Sale of commercial activities of Joulz Energy Solutions

In May 2018, we reached agreement with Koninklijke VolkerWessels about the acquisition of the commercial activities of Joulz Energy Solutions (JES) by Visser & Smit Hanab, which is part of VolkerWessels. The commercial activities of JES are no longer in line with Stedin Group's new strategy. As from 1 July, the regulated activities of JES were placed within Stedin Netbeheer BV. The sales process for the commercial activities of JES will be completed in the second half of 2018. We believe that we have found in VolkerWessels a strong new owner for the commercial part of JES, as a result of which the 145 staff will remain in employment.

The assets and liabilities of JES to be sold are classified as current and presented as held for sale in our balance sheet. We expect to complete the transaction in the third quarter of 2018.

Rotterdam, 31 July 2018

Board of Management,

Marc van der Linden, CEO
Gerard Vesseur, CFO
Judith Koole, COO
David Peters, CTO

Consolidated interim financial statements 2018

Consolidated income statement

x € 1 million	Note	First half 2018	First half 2017
Net revenue		647	545
Other income		8	23
Total net revenue and other income		**655**	**568**
Employee benefit expenses		207	171
Cost of sales and contracted work		174	141
Other operating expenses		92	109
Less: Capitalised own production		-85	-63
		388	**358**
Depreciation, amortisation and impairment of non-current assets		146	123
Total operating expenses		**534**	**481**
Operating profit		**121**	**87**
Financial income and expenses		-27	-41
Profit before income tax from continuing operations		**94**	**46**
Income tax	9	-25	-13
Profit after income tax from continuing operations		**69**	**33**
Profit after income tax from discontinued operations		-	338
Proft after income tax		**69**	**371**
Profit distribution:			
Profit after income tax attributable to holders of Stedin Holding N.V. perpetual subordinated bonds		6	6
Profit after income tax attributable to shareholders of Stedin Holding N.V.		63	365
Proft after income tax		**69**	**371**

Consolidated statement of comprehensive income

x € 1 million	Note	First half 2018	First half 2017
Profit after income tax		**69**	**371**
Unrealised gains and losses that will not be reclassified to income statement (net of tax effects)			
Other unrealised gains and losses from discontinued operations		-	-4
Unrealised gains and losses that may be reclassified to income statement			
Recycling terminated cash flow hedges of Eneco		-	-32
Recycling terminated translation differences of Eneco		-	-6
Unrealised gains and losses on cash flow hedges		-4	17
Unrealised gains on costs of hedging	7	8	-
Deferred tax liabilities on cash flow hedges / costs of hedging		-1	-4
Total other comprehensive income		**3**	**-29**
Total comprehensive income		**72**	**342**
Profit for the year attributable to:			
Holders of Stedin Holding N.V. perpetual subordinated bond loan (after income tax)		6	6
Shareholders of Stedin Holding N.V.		66	336
Total comprehensive income		**72**	**342**

The consolidated statement of comprehensive income for the first half of 2017 has been aligned to the presentation included in the 2017 Annual report.

Consolidated balance sheet

x € 1 million	Note	As at 30 June 2018	As at 31 December 2017 (adjusted)*
Assets			
Non-current assets			
Property, plant and equipment		6,278	6,140
Intangible assets		97	95
Associates and joint ventures		6	6
Financial assets			
- Derivative financial instruments		7	9
- Other non-current financial assets		11	9
Total non-current assets		**6,399**	**6,259**
Current assets			
Assets held for sale	5	23	-
Inventories		40	38
Current tax assets		24	-
Trade and other receivables		178	181
Derivative financial instruments		8	-
Cash and cash equivalents		58	73
Total current assets		**331**	**292**
TOTAL ASSETS		**6,730**	**6,551**
LIABILITIES			
Group equity			
Equity attributable to shareholders		2,119	2,081
Perpetual subordinated bond loan		509	501
Total group equity		**2,628**	**2,582**
Non-current liabilities			
Provisions for employee benefits		17	21
Other provisions		22	22
Deferred income tax liabilities		261	257
Derivative financial instruments		57	71
Interest bearing debt		2,220	2,674
Deferred income		595	538
Other liabilities		2	2
Total non-current liabilities		**3,174**	**3,585**
Current liabilities			
Liabilities held for sale	5	9	-
Provisions for employee benefits		4	2
Other provisions		1	1
Interest-bearing debt		644	79
Current tax liabilities		-	8
Trade and other liabilities		270	294
Total current liabilities		**928**	**384**
TOTAL EQUITY AND LIABILITIES		**6,730**	**6,551**

* Refer to note 4 for the adjustment as a result of changes between the finalised and the provisional accounting for the acquisition of DNWG.

Consolidated cash flow statement

x € 1 million	First half 2018	First half 2017
Profit after income tax	**69**	**371**
Adjusted for:		
· Financial income and expenses recognised in income statement	27	40
· Income tax recognised in income statement	25	27
· Revaluations from discontinued operations	-	-292
· Depreciation, amortisation and impairments of property, plant and equipment and intangible assets	146	148
· Result on sale of property, plant and equipment and intangible assets	-	-4
· Movements in working capital	-22	-73
· Amortisation of customer construction contributions received	-10	-6
· Movements in provisions, derivative financial instruments and other	62	-163
Cash flow from business operations	**297**	**48**
Interest paid	-42	-45
Corporate income tax (paid) / received	-51	-3
Cash flow from operating activities	**-93**	**-48**
New loans issued	-2	-2
Repayments of loans granted	-	1
Acquisition of subsidiaries	-	-442
Disposal of subsidiaries	-	-435
Investments in property, plant and equipment	-282	-213
Disposal of property, plant and equipment	-	4
Investments in intangible assets	-2	-2
Cash flow from investing activities	**-286**	**-1,089**
Dividend payments	-28	-99
Repayment of non-current interest-bearing debt	-	-210
Repayment of current interest-bearing debt	-395	-233
Non-current interest-bearing debt issued	-	244
Current interest-bearing debt issued	490	993
Cash flow from financing activities	**67**	**695**
Movements in cash and cash equivalents	**-15**	**-394**
Cash and cash equivalents as at 1 January	73	420
Cash and cash equivalents as at 30 June	**58**	**26**

The cash flow statement above presents the cash flows of Eneco Group N.V. and CityTec B.V. over the period during which they were part of Stedin Group. The cash flow statement for the first half of 2017 has been aligned to the presentation included in the 2017 Annual report.

Consolidated statement of changes in equity

x € 1 million	Paid up and called-up share capital	Share premium	Revaluation reserve	Translation differences reserve	Cash flow hedge reserve	Costs of hedging reserve	Retained earnings	Un-distributed profit	Bond loan	Non-controlling interests	Total group equity
	Equity attributable to Stedin Holding N.V. shareholders										
As at 1 January 2017	**497**	**381**	**702**	**6**	**-30**	**-**	**3,063**	**187**	**501**	**3**	**5,310**
Profit after income tax first half 2017	-	-	-	-	-	-	-	365	6	-	**371**
Total other comprehensive income	-	-	-	-6	-19	-	-4	-	-	-	**-29**
Total comprehensive income	**-**	**-**	**-**	**-6**	**-19**	**-**	**-4**	**365**	**6**	**-**	**342**
Transaction with shareholders											
Dividend payments relating to 2016	-	-	-	-	-	-	-100	-	-	-	**-100**
Tax on coupon on perpetual subordinated bond loan	-	-	-	-	-	-	-	-	2	-	**2**
Disposal of interest held for distribution to shareholders	-	-381	-	-	-	-	-2,696	-	-	-3	**-3,080**
Total transactions with shareholders	**-**	**-381**	**-**	**-**	**-**	**-**	**-2,796**	**-**	**2**	**-3**	**-3,178**
Other											
Profit appropriation 2016	-	-	-	-	-	-	187	-187	-	-	**-**
Release from revaluation reserve due to depreciation of regulated networks	-	-	-17	-	-	-	17	-	-	-	**-**
Total other	**-**	**-**	**-17**	**-**	**-**	**-**	**204**	**-187**	**-**	**-**	**-**
As at 30 June 2017	**497**	**-**	**685**	**-**	**-49**	**-**	**467**	**365**	**509**	**-**	**2,474**
Profit after income tax second half 2017*	-	-	-	-	-	-	-	46	6	-	**52**
Total other comprehensive income	-	-	86	-	-16	-	-	-	-	-	**70**
Total comprehensive income	**-**	**-**	**86**	**-**	**-16**	**-**	**-**	**46**	**6**	**-**	**122**
Transactions with shareholders											
Coupon on perpetual subordinated bond loan	-	-	-	-	-	-	-	-	-16	-	**-16**
Tax on coupon on perpetual subordinated bond loan	-	-	-	-	-	-	-	-	2	-	**2**
Total transactions with shareholders	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-14**	**-**	**-14**
Release from revaluation reserve due to depreciation of regulated networks	-	-	-27	-	-	-	27	-	-	-	**-**
Total other comprehensive income	**-**	**-**	**-27**	**-**	**-**	**-**	**27**	**-**	**-**	**-**	**-**
As at 31 December 2017	**497**	**-**	**744**	**-**	**-65**	**-**	**494**	**411**	**501**	**-**	**2,582**
Profit after income tax first half 2018	-	-	-	-	-	-	-	63	6	-	**69**
Total other comprehensive income	-	-	-	-	-3	6	-	-	-	-	**3**
Total comprehensive income	**-**	**-**	**-**	**-**	**-3**	**6**	**-**	**63**	**6**	**-**	**72**
Transactions with shareholders											
Dividend payments relating to 2017	-	-	-	-	-	-	-	-28	-	-	**-28**
Tax on coupon on perpetual subordinated bond loan	-	-	-	-	-	-	-	-	2	-	**2**
Total transactions with shareholders	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-28**	**2**	**-**	**-26**
Other											
Profit appropriation 2017	-	-	-	-	-	-	383	-383	-	-	**-**
Release from revaluation reserve due to depreciation of regulated networks	-	-	-15	-	-	-	15	-	-	-	**-**
Total other	**-**	**-**	**-15**	**-**	**-**	**-**	**398**	**-383**	**-**	**-**	**-**
As at 30 Juni 2018	**497**	**-**	**729**	**-**	**-68**	**6**	**892**	**63**	**509**	**-**	**2,628**

* See note 4 on the adjustment as a result of changes between the finalised and the provisional accounting for the acquisition of DNWG.

Selected notes to the consolidated interim financial statements

1. Accounting principles for financial reporting

1.1. General information

Stedin Holding N.V. (hereinafter: '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 operators of Stedin Group, Stedin Netbeheer and Enduris do so by building and managing the electricity and gas networks and readying them for the future and by facilitating the energy market. Stedin Netbeheer operates in the provinces of South Holland and Utrecht and parts of the Noordoost-Friesland and Kennemerland regions. Enduris operates in the province of Zeeland. The subsidiary Joulz Energy Solutions is a specialist in designing, building and maintaining complex medium- and high-voltage installations. This business helps grid operators, railway infrastructure management companies, energy generators and business customers with the challenges entailed by the energy transition. The subsidiaries Joulz Infradiensten, Joulz Meetbedrijf and DNWG Infra provide 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 operators in a regulated market. Each regional grid operator is a monopolist in its area of operations. Regulation means that the work performed by the grid operator is set out in law and the rates are set by the Netherlands Authority for Consumers and Markets (ACM). The regulation model encourages grid operators to perform as well (efficiently and qualitatively) as possible by using a benchmark model.

This half-year report contains the interim financial statements of Stedin Group for the first half of 2018. The half-year report has not been audited, nor reviewed by an independent auditor.

Unless otherwise stated, all amounts are in millions of euros.

The half-year report has been prepared in accordance with IAS 34 'Interim Financial Reporting'. 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 2017 financial statements.

The half-year report applies the same accounting policies and basis of consolidation as the 2017 consolidated financial statements, except for the impact of new or amended policies, standards and interpretations as stated in note 1.4 'New or amended IFRS standards 2018'.

1.2. Events and transactions during the first half of 2018

In May 2018, Stedin Group signed an agreement to sell the non-regulated activities of Joulz Energy Solutions B.V. (JES) to Visser & Smit Hanab in the second half of 2018. See note 5 'Assets held for sale'.

Stedin Netbeheer B.V. and Stedin Operations B.V. merged with effect from 1 April 2018, the financial effect of which has been recognised as from 1 January 2018. This intra-group transaction has no impact on the consolidated equity and results of the group.

No other significant events or transactions occurred that materially impacted the half-year result of Stedin Group.

1.3. Changes in accounting estimates

In preparing these interim financial statements, management used judgements, estimates and assumptions which affect the reported amounts. No significant changes in accounting estimates occurred in the first half of 2018 compared with the accounting estimates in the 2017 financial statements that require disclosure other than those relating to the accounting for the acquisition of Zeeuwse Netwerkholding. These changes are disclosed in note 4 'Business combinations'.

1.4. New or amended IFRS standards 2018

New and amended standards that are applied by Stedin Group

The following new or amended IFRS standards are effective from 1 January 2018:

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'

The accounting policies and the impact of these new standards are disclosed in note 2 'Changes in accounting policies'.

The other new or amended IFRS standards that are effective from 1 January 2018 have no significant impact and require no adjustments in the financial statements.

Impact of standards that have been issued but are not yet applied by the group

The effective date of IFRS 16 'Leases' is 1 January 2019. IFRS 16 will lead to recognition of virtually all leases on the balance sheet. The distinction between finance and operating leases will be removed for lessees. Under the new standard, both an asset and a financial liability are recognised for leases on the balance sheet at present value. Exceptions apply to low-value leases and short-term leases.

Lessor accounting will not change significantly.

The balance sheet total will increase as a result of IFRS 16. A shift will occur in the income statement from operating expenses to amortisation and financial expense. Stedin Group will complete its analysis of the impact of IFRS 16 in the second half of 2018. The exact impact of IFRS 16 is therefore not yet known at present.

2. Changes in accounting policies

2.1. IFRS 15 Revenue from Contracts with Customers - Accounting policies

General
Stedin Group applies IFRS 15 'Revenue from Contracts with Customers' with effect from 1 January 2018. IFRS 15 provides a five-step model for revenue recognition to be applied to contracts with customers. The first step is the assessment to what extent a contract with a customer exists and which separate performance obligations can be identified. Next, the transaction price must be determined and allocated to each separate performance obligation. Revenue is required to be recognised when Stedin Group satisfies a performance obligation and the customer has obtained control over the assets and services.

Concept of revenue
Revenue resulting from contracts with customers is presented as net revenue in the income statement. All other revenue is accounted for as other income. Depending on the situation and the contract with the customer, revenue may be based on estimates. Revenue is largely invoiced on a monthly basis. The revenue does not contain a significant financing component. In principle, payment takes place within the regular payment terms of Stedin Group.

Regulated domain
In principle, each of the contracts with customers for gas and electricity services contains one performance obligation: the transport of gas or electricity. Metering services (low use) and services for new connections (low use and high use) are very closely connected with transport, as no transport is possible without them. The customer simultaneously receives and consumes all benefits provided by the performance of Stedin Group during the period. Accordingly, revenue from transport and metering services is recognised over time, i.e. the course of a year. Depending on the service, revenue is recognised during the year on a straight-line basis or on the basis of the transported volume. Customer contributions to connection costs are accounted for as deferred income under liabilities in the balance sheet and qualify as contract liabilities. This deferred income is released to net revenue in the period to which they relate.

Commercial domain
Revenue is mainly generated on a project basis and accounted for on the basis of the progress in the work performed and the agreed rates. Progress is based on the costs incurred in comparison with the total costs. Stedin Group has satisfied the performance obligation for the costs incurred. The total of amounts not yet invoiced or amounts invoiced in advance in comparison with the value of the performance obligations satisfied by Stedin Group (contract assets or contract liabilities, respectively) is recognised as other receivables and liabilities.

2.2. IFRS 15 Revenue from Contracts with Customers - Impact analysis

Impact on the recognition, measurement and presentation of contracts with customers
Stedin Group applies IFRS 15 with effect from 1 January 2018, using the modified retrospective approach. To that end, Stedin Group has assessed contracts that had not yet been settled at 1 January 2018. Stedin Group has concluded that the requirements in IFRS 15 do not lead to material changes in revenue recognition over 2018 compared with the previous year. Consequently, the equity of Stedin Group at 1 January 2018 does not need to be adjusted.

The amounts received in advance with regard to connection costs are presented as net revenue, as a result of which these amounts are € 10 million higher than under the approach applied in 2017 (other income).

Stedin Group did not change its presentation of contract assets and liabilities. From 1 January 2018, contract assets are recognised as other receivables relating to work in progress positions and amounts not yet invoiced for energy distribution in the sum of € 37 million. The contract liabilities at 1 January 2018 amounted to € 560 million, of which € 538 million were long-term and € 22 million were short-term in nature. The long-term portion is recognised as deferred income and consists of customer contributions to connection costs. The short-term portion is recognised under other liabilities and consists of amounts received in advance from customers for infrastructure projects and the short-term portion of customer contributions to connection costs.

The contract assets amounted to € 39 million at 30 June 2018. The contract liabilities amounted to € 617 million, of which € 595 million were long-term and € 22 million were short-term in nature.

2.3. IFRS 9 Financial Instruments – Accounting policies

General

IFRS 9 'Financial instruments' sets a comprehensive framework for the classification, presentation, recognition and measurement of all financial assets and liabilities and replaces the existing rules in IAS 39 'Financial instruments: Recognition and measurement'. The standard includes amended provisions on the classification of financial assets and liabilities that are closer to the business model. IFRS 9 also contains new rules on impairment of financial assets based on an 'expected loss' model rather than an 'incurred loss' model. The provisions on hedge accounting have also been amended to be more closely in line with businesses' risk policies and are less rigid.

Stedin Group applies the amendments relating to hedge accounting prospectively from 1 January 2018 in accordance with the transitional provisions in IFRS 9. The other requirements of IFRS 9 have been applied retrospectively, using the option not to adjust comparative amounts for 2017.

Classification and measurement

Stedin Group's objective for holding financial assets and liabilities with the exception of derivatives is to collect contractual cash flows (business model test). The financial instruments also meet the SPPI test, i.e. cash flows are generated that are solely payments of principal and interest. Financial instruments are therefore measured at amortised cost. Interest income and expense relating to these financial instruments are based on the effective interest method and are accounted for as financial income and expenses in the income statement. Impairments of contract assets and of financial assets measured on the basis of amortised cost are recorded immediately when the asset originates, based on future expectations of credit risk and on any significant increase in credit risk (the 'expected loss' model). The 'simplified expected credit loss' model is applied for trade receivables and contract assets, using a provision matrix. This model considers the relationship between the extent of the arrears and the occurrence of credit losses both in the past and for future expectations of credit risk during the entire lifetime. Impairments of these receivables are presented as a separate item in the income statement.

Cash flow hedge accounting

Stedin Group uses derivatives to hedge the currency and interest rate risks of debt instruments. All of those derivatives qualify for hedge accounting. Stedin Group has no derivatives of a speculative nature.

The effective portion of the changes in fair value of currency derivatives that qualify for hedge accounting is accounted for in the cash flow hedge reserve in equity. Changes in value relating to the ineffective portion are accounted for directly in the income statement. Stedin Group applies the option to determine the effectiveness of the hedging relationship on the basis of spot rates to limit the risk of ineffectiveness of the hedge. Changes in the market value of the forward component are accumulated as costs of hedging in a separate component of equity in the consolidated statement of comprehensive income. The same accounting method is used for basis spread components as for forward components.

Changes in value relating to the effective portion of interest rate swaps are accounted for in the income statement at the time when the interest expense of the hedged debt instrument is accounted for as well.

When a derivative expires or is terminated or sold, or when the hedge no longer qualifies for hedge accounting, the accumulated amounts in the hedge reserves in equity are released to the income statement when the cash flow occurs.

2.4. IFRS 9 Financial Instruments - Impact analysis

Classification and measurement

The changed requirements for the classification of financial assets and liabilities do not lead to changes in measurement; except for derivatives, the financial assets and liabilities continue to be measured at amortised cost.

Stedin Group has identified an impact of the new rules on impairments of financial instruments, however. Whereas IAS 39 is based on an 'incurred loss' model under which impairments are recognised when they have occurred, IFRS 9 is based on an 'expected loss' model under which impairments are recognised immediately when the assets originate, based on the current credit characteristics and future expectations of credit risk and on any significant increase in credit risk. On the basis of the analysis carried out by Stedin Group, the impact on equity per 1 January 2018 is nil.

Cash flow hedge accounting

Stedin Group's risk management strategies and hedge documentation meet the requirements of IFRS 9. The derivatives existing at 31 December 2017 also qualify for cash flow hedge accounting in accordance with IFRS 9. IFRS 9 does not lead to changes in measurement and accounting for gains or losses in this area.

However, Stedin Group has identified a change in the presentation of the cash flow hedge reserve in equity. With effect from 2018, Stedin applies the option to determine the effectiveness of the hedging relationship on the basis of spot rates to limit the risk of ineffectiveness of the hedge. Forward rates were used for this purpose in 2017. With effect from 2018, the forward component of the derivative is accounted for as costs of hedging. The same accounting method is applied to any basis spread components in a derivative. For the first half of 2018 the effect is € 6 million after tax. The amount has been recognised in a separate component of equity in the consolidated statement of comprehensive income.

See note 7 'Fair value of derivative financial instruments'.

3. Segment information

Business segments are based on Stedin Group's internal organisation and management reporting structure and have not changed in comparison with the 2017 financial statements of Stedin Group. The segments are:

Segment Stedin

The business segment Stedin comprises the regulated domain: the grid operator Stedin. Stedin manages the gas and electricity networks in its service area.

Segment Joulz

The segment Joulz consists of Joulz Energy Solutions B.V., an expert in designing, building and managing complex medium- and high-voltage installations.

The regulated part of the segment Joulz will remain with Stedin Group as of 30 June 2018 and will be transferred to Stedin Netbeheer as at 1 July 2018. The commercial part is recorded as held for sale as at 30 June 2018.

Segment DNWG

The business segment DNWG is the entity DNWG Groep N.V., which consists of grid operator Enduris B.V., which manages the gas and electricity networks in the province of Zeeland, DNWG Infra B.V. (formerly DELTA Infra B.V.), which provides the non-regulated electricity, gas, water and data infrastructure services, and DNWG Warmte B.V., which provides heat infrastructure services. DNWG has been part of Stedin Group since 13 June 2017. DNWG's financial information is included in the financial statements of Stedin Group with effect from 30 June 2017. The period between the acquisition date (13 June 2017) and the start of recognition (30 June 2017) has not materially affected Stedin Group's equity or results. There where no material or unusual events during the final two weeks of June 2017.

Segment 'Other and eliminations'

The main components of the segment 'Other and eliminations' are the infrastructure services and metering and steam network services of Joulz Diensten and up to 31 March 2017 the activities of CityTec, intercompany eliminations and the Holding company. This segment also comprises discontinued operations of the unbundled energy company Eneco up to 31 January 2017. The other units are non-reportable segments according to the criteria in IFRS 8 'Operating Segments' since they are not material and are therefore included here.

As the balance sheets for each operating segment are not periodically reported in the internal management information, Stedin Group has decided not to disclose them. The accounting policies of the group's financial statements are also applied in segment reporting.

The operating results are not cyclical in nature and are not materially impacted by seasonal influences.

3.1. Revenue and operating profit by segment of revenue

Stedin Group operates solely in the Netherlands and all the revenues of Stedin Group are generated in the Netherlands. In accordance with the requirements of IFRS 15, the following table disaggregates the revenue in the first half of 2018 into categories which reflect the way that the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. To that end, Stedin Group has aligned its disclosures for the regulated domain as much as possible with the periodic reporting required by the Dutch Authority for Consumers and Markets (ACM). The table also comprises a reconciliation of the disaggregated revenue with the segment information on the basis of the management and internal reporting structure:

First half year 2018 **x € 1 million**	**Segment Stedin**	**Segment Joulz**	**Segment DNWG**	**Other activities and eliminations**	**Total**
Net revenue					
-Electricity transmission, connection and metering services	340	-	42	11	393
-Gas transmission, connection and metering services	162	-	15	-	177
-Infrastructure services and other	18	21	26	12	77
Other income	12	51	1	-56	8
Total operating expenses	-302	-70	-59	43	-388
Depreciation, amortisation and impairments of property, plant and equipment and intangible assets	-127	-	-15	-4	-146
Operating profit	**103**	**2**	**10**	**6**	**121**
Financial income and expenses	-6	-	-	-21	-27
Profit before income tax from continuing operations	**97**	**2**	**10**	**-15**	**94**
Income tax	-23	-	-2	-	-25
Profit after income tax from continuing operations	**74**	**2**	**8**	**-15**	**69**
Profit after income tax from discontinued operations	-	-	-	-	-
Profit after income tax	**74**	**2**	**8**	**-15**	**69**

The revenue and results in the first half of 2017 based on the internal organisation and management reporting structure were:

First half year 2017 **x € 1 million**	**Segment Stedin**	**Segment Joulz**	**Segment DNWG**	**Other activities and eliminations**	**Total**
Net revenue	487	36	-	22	545
Other income	30	48	-	-55	23
Total operating expenses	-320	-80	-	42	-358
Depreciation, amortisation and impairments of property, plant and equipment and intangible assets	-119	-	-	-4	-123
Operating profit	**78**	**4**	**-**	**5**	**87**
Financial income and expenses	-21	-	-	-20	-41
Profit before income tax	**57**	**4**	**-**	**-15**	**46**
Income tax	-13	-1	-	1	-13
Profit after income tax from continued operations	**44**	**3**	**-**	**-14**	**33**
Profit after income tax from discontinued operations	-	-	-	338	338
Profit after income tax	**44**	**3**	**-**	**324**	**371**

Segment Joulz is adjusted in the 2017 comparative figures. The Joulz segment consists only of the financials of Joulz Energy Solutions, equal to the 2017 Annual report. The activities of the metering and steam network services of Joulz Diensten are included in the segment 'Other activities and eliminations', equal to the 2017 Annual report.

3.2. Other information by business segment

At 30 June 2018 x € 1 million	Segment Stedin	Segment Joulz	Segment DNWG	Other activities and eliminations	Total
Investments in property, plant and equipment & intangible assets	250	-	31	3	284
Depreciation and amortisation of property, plant and equipment and intangible assets	-127	-	-15	-4	-146

At 30 June 2017 x € 1 million	Segment Stedin	Segment Joulz	Segment DNWG	Other activities and eliminations	Total
Investments in property, plant and equipment & intangible assets	203	-	-	4	207
Depreciation and amortisation of property, plant and equipment and intangible assets	-119	-	-	-4	-123

4. Business combinations

Purchase of Zeeuwse Netwerkholding N.V.

On 13 June 2017, Stedin Holding N.V. purchased the entire share capital of Zeeuwse Netwerkholding N.V. (DNWG) and acquired full control. DNWG's 636 employees work in the Enduris B.V. (regional grid operator) and DELTA Infra B.V. business units. DNWG is positioned as a separate business segment of Stedin Group.
The measurement of the assets and liabilities was included in the 2017 consolidated financial statements on a provisional basis. At that time, the provisional goodwill was not yet allocated to cash-generating units. The reason for this fact was that Stedin Group had not yet fully completed its analysis of synergy benefits and was not yet able to measure all identifiable assets and liabilities at fair value.

Stedin Group completed the Purchase Price Allocation (PPA) in the first half of 2018, as well as the analysis of the synergy benefits. The finalised goodwill allocation on the basis of the synergy benefits is € 30 million for Stedin Netbeheer and € 47 million for DNWG. The adjustments compared with the provisional accounting in the 2017 financial statements have been recognised retrospectively in the comparative amounts of this half-year report in accordance with IFRS 3. The effect of the retrospective adjustment is a lower net result 2017 of € 1 million.

Allocation of the acquisition price for Zeeuwse Netwerk Holding N.V. x € million	Final	Provisional	Difference
Assets			
Property, plant and equipment: networks, connections and smart meters	627	621	6
Intangible assets	9	10	-1
Deferred tax assets	9	8	1
Financial assets	5	4	1
Cash and cash equivalents	13	13	-
Total assets	**663**	**656**	**7**
Liabilities			
Interest-bearing debt	150	150	-
Deferred tax liabilities	33	28	5
Provisions	15	15	-
Deferred income	71	71	-
Working capital	16	20	-4
Total liabilites	**285**	**284**	**1**
Net assets acquired	378	372	6
Total acquisition price	**455**	**455**	**-**
Goodwill	**77**	**83**	**-6**

There were no indications of impairment at the end of the reporting period. Consequently, no impairment analysis was performed.

5. Assets held for sale

At the start of 2018, Stedin Group decided to dispose of the activities in the commercial domain of the segment Joulz Energy Solutions B.V. (JES). Given the fact that the activities to be disposed of account for a limited part of the total revenue of JES, they have been classified as assets held for sale rather than as discontinued operations. The regulated activities of JES will remain within Stedin Group. Stedin Group signed a sale contract with Visser & Smit Hanab in May 2018. The sale will take place in the second half of 2018. Consequently, the assets and liabilities related to the sale transaction are separately classified in the balance sheet of this half-year report as 'assets/liabilities held for sale'.

The other assets held for sale relate to land and business premises.

Measurement of all assets held for sale did not result in a downward adjustment to lower market value less costs to sell, as the selling prices exceed the current carrying amounts. The effect on net profit is nil.

6. Financing

During the first half of 2018, Stedin Group did not raise or repay any new financing, except for the portion that relates to the ECP programme for managing the short-term liquidity position. At 30 June 2018 € 120 million was outstanding under the ECP programme. The outstanding amount at year-end 2017 was € 25 million.

7. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value can be measured in various ways, and depending on the use of observable inputs, the value is classified into the following categories:

Level 1
Level 1 recognises financial instruments whose fair value is measured using unadjusted quoted prices in active markets for identical instruments.

Level 2
Level 2 recognises financial instruments whose fair value is measured using market prices or pricing statements and other available information. Where possible, the measurement method uses observable market prices. Contracts for derivative financial instruments are measured by agreement with the counterparty, using observable interest rate and foreign currency forward curves.

Level 3
Level 3 recognises financial instruments whose fair value is measured using calculations involving one or more significant inputs that are not based on observable market data.

The table below shows the fair values of financial instruments, insofar as they differ significantly from the carrying amounts:

x € 1 miljoen	Assets as at 30 June 2018	Liabilities as at 30 June 2018	Assets as at 31 December 2017	Liabilities as at 31 December 2017
Interest rate and currency swap contracts	15	57	9	71
Bond loans	-	800	-	802
Other loans	-	2,279	-	2,177
Total	**15**	**3,136**	**9**	**3,050**
Level 1	-	3,079	-	2,979
Level 2	15	57	9	71
Level 3	-	-	-	-
Total	**15**	**3,136**	**9**	**3,050**

The interest rate and currency swap contracts are covered by fair value level 2 (2017: fair value level 2).

The fair value of the bond loans was determined on the basis of the closing rate at 30 June 2018. This value was measured in accordance with fair value level 1. The fair value of the other loans was determined using the present value method ('income approach'). This was based on relevant market interest rates for comparable debt. Consequently, the information for establishing value is covered by fair value level 2.

The carrying amounts of the financial instruments are as follows:

x € 1 miljoen	Assets as at 30 June 2018	Liabilities as at 30 June 2018	Assets as at 31 December 2017	Liabilities as at 31 December 2017
Interest rate and currency swap contracts	15	57	9	71
Bond loans	-	798	-	798
Other loans	-	2,066	-	1,955
Total	**15**	**2,921**	**9**	**2,824**
Current/short term	8	644	-	79
Non-current/long term	7	2,277	9	2,745
Totaal	**15**	**2,921**	**9**	**2,824**

At 30 June 2018, the costs of hedging related to the forward and basis spread components of derivatives are € 8 million (1 January 2018: nil).

8. Dividend

A net dividend of € 24 million relating to the 2017 financial year was distributed on 30 April 2018.

9. Taxation

The tax expense in the consolidated income statement was determined on the basis of the estimated weighted average effective tax rate (26.6%) for the full financial year. For 2017, this rate was 28.3%.

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