Crucial **craftsmanship**

Extract Annual Report 2020

STEDIN GROEP

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Explanatory note

This document is an extract from our Dutch Annual Report 2020, published on 18 February 2021. The purpose of this extract is to provide a translation of the main financial paragraphs for information purposes. The full English translation is expected to be published on **15 March 2021**, and will be posted on our website: www.stedingroup.com.

The executive board of Stedin Group. From left to right: Marc van der Linden, Danny Benima, David Peters

Foreword Board of Management

There can be no denying that 2020 was the year of COVID-19. From the outset in March, we had a crisis management organisation lined up. In no time, we arranged for thousands of people to work from home, we adjusted to the 1.5-metre social distancing rule and we adopted a new protocol titled '*anderswerkentijdenscorona*' (working differently during the coronavirus crisis). Some activities, such as installing smart meters, had to be temporarily suspended, and several of our employees were assigned to other duties on a temporary basis. At the same time, all vital work continued to be carried out as normal. We are proud of how quickly we took action, enabling us to seamlessly absorb the abrupt transition to the intelligent lockdown. We remained focused on the safety needs of our customers, employees and suppliers. The corona pandemic showed the importance of being well prepared for any crises. This exceptional situation also demonstrated once again that our work is of vital importance – for society, for businesses and for residents. It goes without saying that we do everything possible to prevent outages. A power outage such as the one in August that left 33,000 households and businesses in The Hague without power for 8 hours is deeply regrettable and viewed by us as a low point.

There was much more to 2020, of course. The energy transition remains a major theme. The growing number of charging points and solar panels, among other things, in our service area are also clear evidence that the transition is gathering pace. Ensuring sufficient grid capacity and voltage quality are a priority for us. Our objective for the future is to maintain supply security in the face of the rising demand for energy. During 2020, great attention was therefore also paid to long-term financing. In dialogue with our shareholders, we are making steps to jointly address the issue of how the energy transition should be funded in the Netherlands. We are also in talks with the Ministry of Economic Affairs and Climate Policy and the Netherlands Authority for Consumers & Markets (ACM) about legislation and regulations and how to ensure they are tailored to the current situation. Of course, we also continuously review our own expenditure and how to curb it. In 2020, we succeeded once again in increasing our efficiency. The energy transition will remain a central theme in the coming years. We strongly believe that this is a collective endeavour. We are therefore proud that our area surveys allow us to make a significant contribution to the Regional Energy Strategy (RES). Together, we examine how best to shape the energy transition from one region to the next, enabling us to reach optimum solutions. A milestone in 2020 was our decision to join C-ARM, the shared platform of all grid managers to provide for the uniform delivery of measurement data to market parties. We also vastly improved safety performance in 2020 – something we aim to continue in the coming year.

Crucial craftsmanship

The theme of this Annual Report is 'crucial craftsmanship'. This stands for a vital sector but also for the professional work that is essential to provide everyone with energy – both now and in the future. This includes our engineers, IT, knowledge of energy and customer experience. No matter how digital we become, our work requires the human touch and is a true profession.

We hope for a revaluation of professional work – for the work we do in the sector. As an organisation, we have always had a special fondness for our In-house Training School. This is where we train school leavers and young immigrants to the Netherlands: young people who are starting to build a life for themselves and are willing to seize the opportunities Stedin can offer them. It is a meeting place for young and old. As such, it is more than just a vocational school – it is where we equip young people to build a life. That is crucial craftsmanship. In 2020, we awarded a diploma to the 1,500th student of the In-house Training School. That gives us great satisfaction.

In 2021, we will continue our efforts to become even more customer friendly and to further support the energy transition. This will also be the year in which we say goodbye to Marc van der Linden. He will be leaving us to embrace a new, as yet unknown adventure. Judith Koole stepped down as COO, although she will remain with Stedin Group for at least another year. We would like to thank her for her contributions, in particular in the field of customer satisfaction.

We hope that Stedin will continue to become 'our' company in 2021. By that, we mean that it should belong not just to 'us Stedin workers', but to all of us: residents in our service area, shareholders, businesses and public authorities. Only together can we remain vital.

Board of Management

Marc van der Linden (CEO)
Danny Benima (CFO)
David Peters (CTO)

Key figures and ratios for 2020

Improved grid management

2020 2019

Investments
In millions of euros

€ 620

€ 646

Average downtime
Electricity (in minutes)

26 20

Gas (in seconds)

26 87

Customer satisfaction
Customers who give an 8 or higher (new measurement method in 2020, the 2019 results are not comparable)

74%

Supply reliability
(in %)

99,9951

99,9962

Facilitating the energy transition

2020 2019

Electric driving
Growth number of electric charging connections for low-volume users

1,912 1,237

Smart meter
Number of offers

178,077

317,987

Smart meters installed (%)

89.2 80.6

Number of new-build homes natural gas-free

92%

80%

Growth capacity of solar panels
Change from 2018 in provinces of Utrecht and Zuid-Holland

48% 53%

Sustainable business operations

2020 2019

Safety LTIR
Number of lost-time injuries with absenteeism per million hours worked.

0.40 2.19

Safety RIF
Number of recordable incidents per 200,000 hours worked

0.70 1.00

Employee satisfaction
On a scale from 1 to 10
Engagement

8.0 7.5

Commitment

8.1 7.8

CO_2-emmissions
Generated by business operations in tonnes (the 2020 figure includes net-work losses natural gas, the 2019 number does not).

53,258

12,966

Financial results

2020 2019

Total net revenue and other income
In millions of euros

€ 1,229

€1,234

Balance sheet total
In millions of euros

€ 7,572

€ 7,289

Solvency

43.0%

44.9%

FFO/Net debt

12.0%

12.3%

Stedin Group's ratios

	Unit	2020	2019	2018	2017
Financial figures (derived from our financial statements)					
Net revenue and other income	€ million	1,229	1,234	1,286	1,194
Investments in property, plant and equipment	€ million	620	646	607	494
Balance sheet total	€ million	7,572	7,289	6,991	6,551
Result after income tax	€ million	42	325	118	423
Solvency	%	43.0*	44.9	43.3	43.3
Operational ratios					
High-use electricity connections	number	19,379	18,912	22,692	21,786
Low-use electricity connections	number	2,303,313	2,283,563	2,263,009	2,256,608
Quantity of electricity transported	GWh	20,171	21,100**	21,330	21,893
Length of electricity cables	km	56,854	56,140	55,604	55,191
Length of electricity cables laid	km	852	1,034	806	611
High-use gas connections	number	9,556	9,633	10,761	10,852
Low-use gas connections	number	2,111,265	2,111,038	2,104,174	2,108,397
Quantity of gas distributed	million m^3	4,365	4,651	4,852	4,865
Length of gas pipelines	km	28,206	28,216	28,190	28,137
Length of gas pipelines laid	km	197	221	250	210
Medium-voltage failures resulting in disruption	number	523	519	433	390
Personnel					
Employees (internal) at year-end	number	4,276	4,346	4,470	4,488
Employees (external) at year-end	number	709	804	1,059	1,004
FTEs (internal) at year-end	number	4,127	4,213	4,339	4,365
FTEs (external) at year-end	number	607	700	791	750
Absence through sickness	%	4.2	4.8	5.0	5.2
Male employees	%	83	83	83	83
Female employees	%	17	17	17	17
Safety					
Lost Time Injury Rate (LTIR)	ratio	0.40	2.19	3.00	4.88
Recordable Incident Frequency (RIF)	ratio	0.70	1.00	1.00	1.29
Outages and interruptions in electricity supply					
Average duration of interruption MV/LV (CAIDI)	minutes	112	82	76	88
Interruption frequency MV/LV (SAIFI)	number	0.231	0.245	0.223	0.188
Annual average downtime MV/LV (SAIDI)	minutes	26	20	17	16
Annual average downtime HV/MV/LV (SAIDI)	minutes	26.7	21.0	18.3	16.6
Outages and interruptions in gas supply					
Average duration of interruption (CAIDI)	minutes	75	270	122	78
Interruption frequency (SAIFI)	number	0.006	0.005	0.0094	0.0086
Annual average downtime (SAIDI)	seconds	26	87	69	40

* Equity plus profit or loss for the period less expected dividend distributions for the current financial year divided by the balance sheet total, adjusted for the expected dividend distribution, connection contributions received and free cash and cash equivalents.

** In 2019, 621 GWh was incorrectly included for Enduris. This should be 1.764 GWh

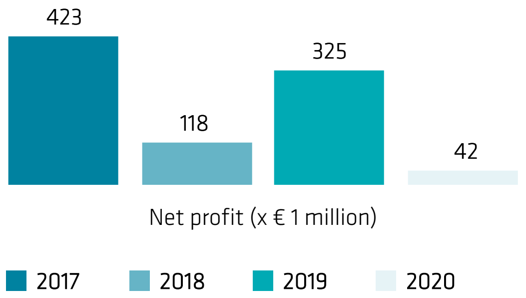
	2020	2019	2018	2017
Information on total number of employees				
Number of employees of Stedin Group	4,276	4,346	4,470	4,488
Number of employees at Stedin	3,652	3,672	3,665	3,185
Number of employees at NetVerder	5	5	-	-
Number of employees at Joulz Diensten	-	-	153	-
Number of employees at Joulz (incl. Joulz Diensten)	-	-	-	648
Number of employees at DNWG	619	669	652	655
Number of employees on a full-time contract				
Male employees	3319	3,403	3,517	3,539
Female employees	363	357	385	396
Number of employees on a part-time contract				
Male employees	217	200	184	173
Female employees	377	386	384	380
Number of employees on a permanent contract				
Male employees	3,323	3,402	3,457	3,425
Female employees	667	679	701	669
Number of employees on a temporary contract				
Male employees	213	201	244	287
Female employees	73	64	68	107
CLA/Non-CLA				
CLA	4,092	4,158	4,282	4,268
Non-CLA	184	188	188	220
Diversity of boards and employees				
Younger than 25	76 (2%)	66 (2%)	59 (1%)	59 (1%)
Between 25 and 34	908 (21%)	843 (19%)	872 (20%)	933 (21%)
Between 35 and 44	1.060 (25%)	1.056 (24%)	1.060 (24%)	1.000 (22%)
Between 45 and 54	908 (21%)	923 (21%)	1.005 (22%)	1.058 (24%)
55 and older	1.324 (31%)	1.458 (34%)	1.474 (33%)	1.438 (32%)
Number of women in management positions	64	60	64	58
Number of men in management positions	224	224	231	235

Financial results

Stedin Group achieved a net profit of €42 million in 2020. The earnings are in line with our expectations.

Financial results over 2020

After deducting taxes, Stedin Group's net profit before profit appropriation was €42 million (2019: €325 million). Earnings had therefore fallen by €283 million compared with 2019. The 2019 earnings included €251 million related to the sale of Joulz Diensten. Adjusted for this non-recurring effect, earnings in 2020 decreased by €32 million compared with 2019. A total of some €6 million of that decrease was related to COVID-19. Thus, in the period of COVID-19, we saw lower revenue from high-use customers, higher costs for absence of own staff due to illness and quarantine measures if they experienced symptoms of illness, partly offset by lower costs of contracted work, and a lower level of activity.



The coronavirus crisis therefore certainly had negative financial consequences for Stedin Group, even if they were limited. TenneT's higher transmission costs also pushed down the result. Further implementation of efficiency measures and lower energy costs for network losses helped to shore up the profit.

The lower level of activity due to COVID-19 was partly offset by scaling back slightly on external staff and through the broader deployment of our fitters. Despite COVID-19, we made substantial investments in a future-proof grid: €620 million (2019: €646 million).

Working effectively and efficiently

As part of our strategic spearhead 'Sustainable business operations', it is important to ensure and retain our financial health. A continual focus on working effectively and efficiently is one of the pillars within 'Financially healthy'. We are not only looking to achieve savings on operating expenses, we also critically review whether investments are really necessary, thus ensuring that Stedin remains a reliable and flexible partner in the energy transition.

In 2018, a five-year efficiency programme was launched with the aim of structurally reducing operating expenses by approximately €150 million compared with the 2017 level. At the end of 2020, we had realised approximately €109 million of this. We are therefore well on track to achieve the total level of savings of €150 million by the end of 2022. As we have so far been readily able to achieve the savings, we decided this year to further increase the 2025 target for structural savings on our expenditure compared with the level of 2017 to €180 million. In 2021, we will review whether further possibilities for savings exist.

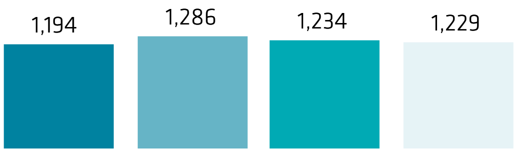
We are realising a large part of the efficiency improvement this year through the results of our Strategic Initiatives, under which we work more intelligently, make greater use of digitalisation and collaborate more in chains with customers, suppliers and utilities. We are also seeing positive results in our efficiency from the phased integration of DNWG in Stedin Group. We are also on track with this. You can read more about this topic in Improved grid management.

We are continually working more efficiently, but the volume of our work is also increasing. This entails an increase in costs in absolute terms, compared with 2019.

In 2021, we will initiate a programme to organise our failure response procedure more efficiently. We aim to achieve our efficiency objectives with these and other initiatives.

Total net revenue and other income

Net revenue and other income for 2020 amounted to €1,229 million, This is €5 million less than in 2019. Regulated revenue from high-use customers decreased compared with 2019 due to a decrease in peak capacity and peak volumes, mainly as a result of COVID-19. In addition, net revenue and other income for 2019 had included four months of revenue (€16 million) of the sold Joulz Diensten. This decrease in net revenue and other income was partly offset by higher regulated revenue from low-use customers due to increased rates and higher non-regulated revenue.

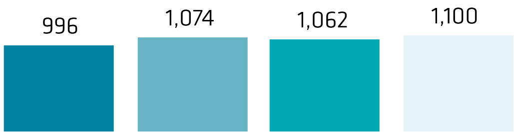


Net revenue and other income (x € 1 million)

In the metering domain, the rates are set by following the decision on rates (tariefbesluit) of the Netherlands Authority for Consumers and Markets (ACM). The rates also included a reduction to compensate for the surplus profitability achieved in prior years.

Operating expenses

Our operating expenses rose by €38 million (3.6%) in 2020 to €1,100 million. This was mainly attributable to higher transmission costs, partly offset by lower other expenses.

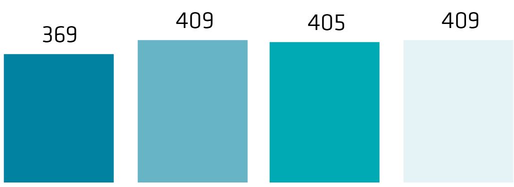


Operating expenses (x € 1 million)

The transmission costs of TenneT amounted to €165 million and caused a €40 million increase in operating expenses compared with 2019. This increase was partly offset by lower energy costs for network losses.

Personnel expenses

Personnel expenses amounted to €409 million in 2020 (2019: €405 million).

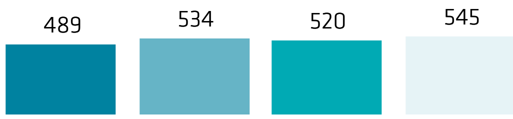


Employee benefit expenses (x € 1 million)

The increase of personnel expenses was driven by a wage increase under the Collective Labour Agreement, an increased provision for holiday leave and increased costs per externally hired FTE. In addition, fewer hiring costs were allocated to assets in 2020. This was partly offset by a decrease of the costs amounting to €5 million that related to Joulz Diensten in 2019. Moreover, the average number of FTEs (both own staff and external hires) fell compared to 2019.

Purchase costs, costs of contracted work and other operating expenses

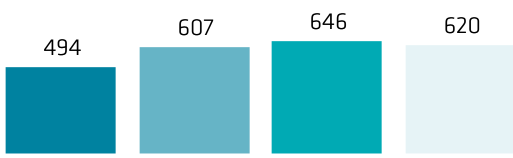
Purchase costs, costs of contracted work and other operating expenses increased by €25 million (5.0%) in 2020 to €545 million. This increase was mainly attributable to the rising transmission costs of TenneT and an increase in the costs for ICT and EDSN, partly offset by lower costs for network losses and lower other expenses, partly due to savings achieved. Moreover, the costs of Joulz Diensten are no longer included.



Purchasing costs, costs of contracted work and other operating expenses (x € 1 million)

Investments

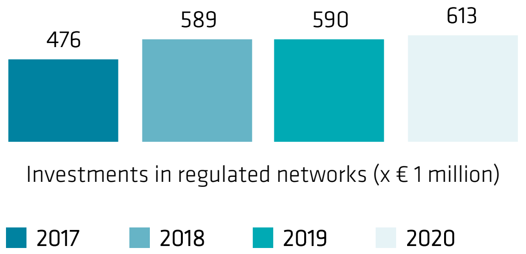
Investments in property, plant and equipment and intangible assets in 2020 amounted to €620 million, a decrease of 4,0 % (2019: €646 million).



Investments (x € 1 million)

Owing to the coronavirus crisis, the volume of work we were able to perform at customers decreased. This impacted our grid-driven investments and the roll-out of smart meters. Due to the second wave of the pandemic in the autumn and winter and the strict measures this entailed, we were unable to compensate in the second half of the year 2020 for the decrease of the first half of the year. The large majority of the investments planned for but not carried out in 2020 was deferred to 2021. This increases the operational challenge for 2021 and subsequent years.

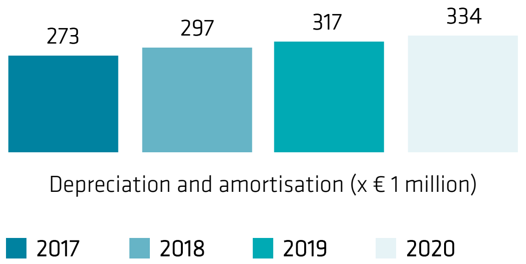
Investments in regulated networks increased from €590 million in 2019 to €613 million in 2020. This was mainly attributable to an increase in customer-driven investments (including further growth in investments to improve sustainability) and an increase in grid-driven investments.



Hours worked by own and externally hired staff that are allocated directly to own investment projects are deducted from the operating expenses. Compared with the preceding financial year, the costs of capitalised hours by own staff increased by €8 million (4%) to €188 million, owing to increased investments in our grid.

Depreciation and amortisation

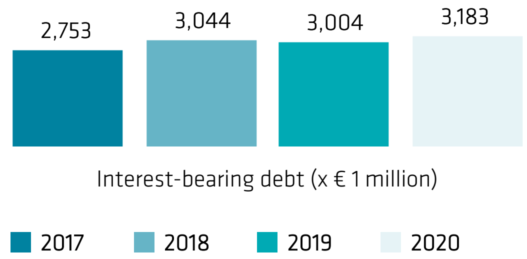
Depreciation charges and impairments of non-current assets amounted to €334 million, an increase of €17 million (5.4 %) compared with the previous year. This increase was the result of a higher total fixed asset balance and a change in the depreciation term of a part of our smart meter portfolio.



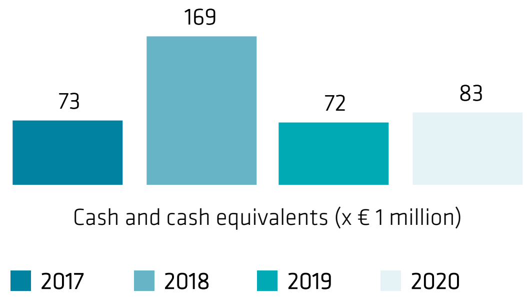
Financing, financial income and expenses, and liquidity

Our net financial expenses decreased by €11 million compared with 2019, to €56 million. This decrease related mainly to the interest expense on long-term external loans. The difference concerns lower interest expense due to the refinancing in 2019 at a lower interest rate.

No existing loans were repaid during 2020 and no refinancing took place. There was negative cash flow however, which led to an increased financing requirement. This was met during the year by borrowing in the money market for short periods. On balance, interest-bearing debt increased by €179 million to €3,183 million as at 31 December 2020 (2019: €3,004 million).

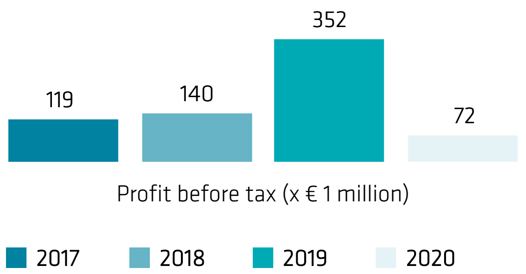


Cash and cash equivalents amounted to €83 million at 31 December 2020 (year-end 2019: €72 million).



Income tax

Profit before tax was €72 million for 2020 (2019: €352 million).

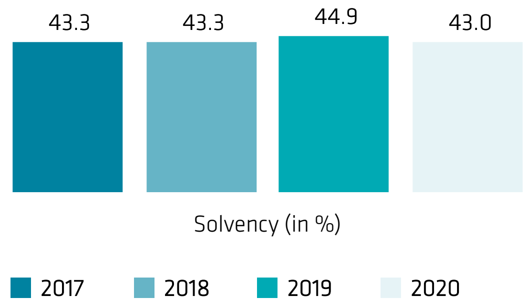


The tax expense rose by €3 million in 2020 to €30 million. The effective tax rate (as a percentage of profit before tax from continuing operations) in 2020 was 40.9% (2019: 7.7%).

In December 2020, the Upper House of Dutch Parliament approved the bill that includes an increase of the corporate income tax rate from 21.7% to 25% from 2021. The reduction of the tax rate that had been previously announced was thus revoked. As a consequence of the increase in the tax rate, deferred tax assets and liabilities will in future be realised at 25% instead of 21.7%. The measurement of the deferred tax assets and liabilities as at 31 December 2020 at this higher rate results in a negative effect of €11 million on tax expense in 2020.

Solvency and credit rating

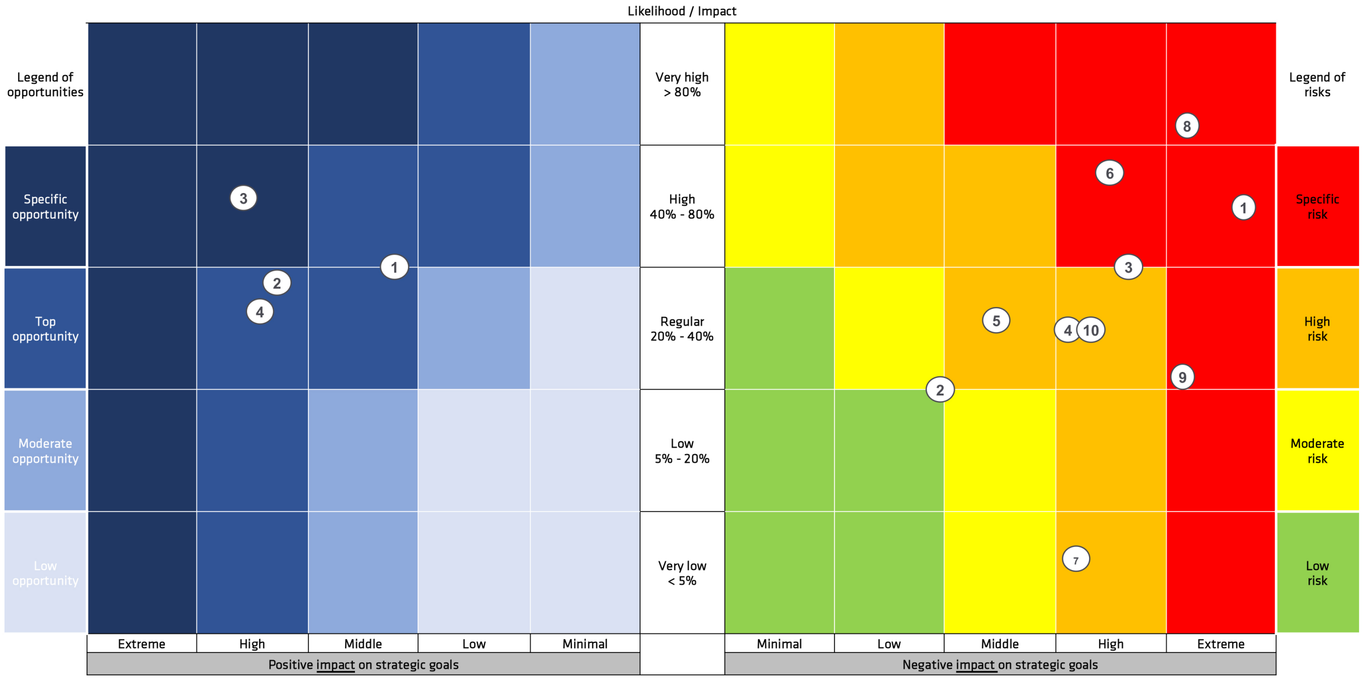
Solvency at year-end 2020 was 43.0% (year-end 2019: 44.9%).



Stedin Group's policy is aimed at maintaining minimum long-term solvency of 40%. Stedin Group's goal is to retain its long-term A- credit rating with a stable outlook according to Standard & Poor's (S&P). Consequently, there is an adequate buffer for continued compliance with the minimum credit rating requirement pursuant to the Network Operators Financial Management Decree (Besluit Financieel Beheer Netbeheerders) (a minimum rating of BBB/Baa2). S&P reconfirmed the A- credit rating with a stable outlook on 2 September 2020.

Categories of strategic risks and opportunities in 2020

Stedin Group assigns its strategic risks and opportunities to five categories, from low to top. In evaluating risks and opportunities, we compare the likelihood of their occurrence with their potential impact on the achievement of our three strategic spearheads. This comparison led to the risk matrix below for 2020.



Strategic opportunities:

1. Strategic supplier relationships
2. Disruptive technologies and methods
3. Provide stakeholders and customers with more self-services
4. Building a future-proof IT landscape

Strategic risks:

1. Cyberattack
2. Unavailability of enough people with the required technical competences
3. IT landscape insufficiently prepared for the future
4. Agility of the organisation
5. Uncertainties concerning changes in laws and regulations
6. Uncertainties concerning long-term financing
7. Impact of accidents
8. Insufficient connection and transmission capacity
9. Loss of communication network
10. Increased probability of wave of replacements of absolate assets.

In-control statement

As the Board of Management, we are responsible for the adequate design and operating effectiveness of our risk management and control system. This system is aimed at monitoring the achievement of strategic and operational objectives, the reliability of our financial reporting and our regulatory compliance. The inherent limitations that apply to any internal risk management and control system must, however, be taken into account. As a result, we will never be able to guarantee absolutely that we will achieve our company objectives or that our processes (including the financial reporting process) will be free from errors, losses, fraud or violations of laws and regulations.

We monitored and evaluated the design and operating effectiveness of the system during 2020, and discussed this with the senior leadership team, the Board of Management and the Supervisory Board. Monitoring and evaluation took place based on business control reports containing an overview of operational risks and controls, business self-assessments resulting in Letters of Representation, and quarterly updates on strategic risks and opportunities. Account was also taken of the information from reports from the internal audit function and the external auditor. In 2020, as a result of our investments in our Internal Control Framework, we had more opportunity to determine the adequate design and operating effectiveness of our risk management and control system over the course of the year. These interim evaluations gave rise to improvement plans, some of which have been implemented already while others are still awaiting implementation. The full implementation of the recovery plans will lead to a more demonstrable and efficient control of operations.

We declare that:

• the in-control proces provides sufficient insight into any failings in the effectiveness of the internal risk management and control systems;

• the aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;

• based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis;

and

• the report states those material risks and uncertainties that are relevant to the expectation of the company’s continuity for the period of twelve months after the preparation of the report.

Rotterdam, 17 February 2021

Board of Management,

Marc van der Linden, CEO (chair)

Danny Benima, CFO

David Peters, CTO

2020 Financial Figures

Consolidated income statement

x € 1 million	2020	2019
Net revenue	1,216	1,220
Other income	13	14
Total net revenue and other income	**1,229**	**1,234**
Personnel expenses	409	405
Cost of sales and contracted work	317	300
Other operating expenses	228	220
Less: Capitalised own production	-188	-180
	766	**745**
Depreciation, amortisation and impairment of non-current assets	334	317
Total operating expenses	**1,100**	**1,062**
Operating profit	**129**	**172**
Financial income and expenses	-56	-67
Result from associates and joint ventures after income tax*	-1	247
Profit before income tax	**72**	**352**
Income tax	-30	-27
Result after income tax	**42**	**325**
Profit distribution:		
Profit after income tax attributable to holders of Stedin Holding N.V. perpetual subordinated bonds (after income tax)	12	12
Profit after income tax attributable to the shareholders of Stedin Holding N.V.	30	313
Result after income tax	**42**	**325**

* In 2019, Joulz Diensten has been sold, with a result after taxes of € 251 million.

Consolidated statement of comprehensive income

x € 1 million	2020	2019
Result after income tax	**42**	**325**
Unrealised gains and losses that will not be reclassified to the income statement (net of tax effects)		
Effect of changes in tax rate on revaluation reserve	-29	-12
Unrealised gains and losses that may be reclassified to the income statement		
Unrealised gains and losses on cash flow hedges	-17	-11
Recycling cash flow hedge reserve to income statement	3	3
Deferred tax liabilities on cash flow hedges / cost of hedging	3	1
Effect of change in tax rate on cash flow hedge reserve / cost of hedging	4	1
Total other comprehensive income	**-36**	**-18**
Total comprehensive income	**6**	**307**
Profit distribution:		
Holders of Stedin Holding N.V. perpetual bond loan (after income tax)	12	12
Shareholders of Stedin Holding N.V.	-6	295
Total comprehensive income	**6**	**307**

Consolidated balance sheet

x € 1 million	31 December 2020	31 December 2019
ASSETS		
Non-current assets		
Property , plant and equipment	7,057	6,753
Intangible assets	93	95
Right-of-use assets	81	86
Associates and joint ventures	4	3
Financial assets		
- Derivative financial instruments	16	39
- Other non-current financial assets	16	13
Total non-current assets	**7,267**	**6,989**
Current assets		
Inventories	51	36
Current tax assets	3	20
Trade and other receivables	165	172
Derivative financial instruments	3	-
Cash and cash equivalents	83	72
Total current assets	**305**	**300**
TOTAL ASSETS	**7,572**	**7,289**
LIABILITIES		
Group equity		
Equity attributable to Stedin Holding N.V. shareholders	2,390	2,448
Perpetual subordinated bond loan	501	501
Total group equity	**2,891**	**2,949**
Non-current liabilities		
Provisions for employee benefits	11	12
Other provisions	24	30
Deferred tax liabilities	274	232
Derivative financial instruments	84	52
Interest-bearing debt	2,893	2,985
Deferred income	787	707
Other liabilities	-	1
Total non-current liabilities	**4,073**	**4,019**
Current liabilities		
Provisions for employee benefits	3	3
Other provisions	5	2
Derivative financial instruments	2	-
Interest-bearing debt	290	19
Trade and other liabilities	308	297
Total current liabilities	**608**	**321**
TOTAL LIABILITIES	**7,572**	**7,289**

Consolidated cash flow statement

x € 1 million	2020	2019
Profit after income tax	**42**	**325**
Adjusted for:		
· Financial income and expenses recognised in the income statement	56	67
· Income tax recognised in the income statement	30	27
· Share in result of associates and joint ventures	1	-247
· Depreciation, amortisation and impairments of property, plant and equipment, intangible assets and right-of-use assets	334	317
· Result on sale of property, plant and equipment and intangible assets	-1	-1
· Movements in working capital	3	-14
· Amortisation of customer construction contributions received	-21	-19
· Movements in derivative financial instruments	22	-
· Movements in provisions, derivative financial instruments and other	-11	5
Cash flow from business operations	**455**	**460**
Interest paid	-58	-71
Interest received	1	1
Corporate income tax received	10	-16
Cash flow from operating activities	**408**	**374**
New loans issued	-7	-4
Repayments of loans granted	4	4
Disposal of subsidiaries*	-	310
Investments in property, plant and equipment	-614	-641
Disposal of property, plant and equipment	1	1
Investments in intangible assets	-1	-2
Customer construction contributions received	105	96
Cash flow from investing activities	**-512**	**-236**
Dividend payments	-52	-46
Payment of lease liabilities	-17	-17
Coupon on perpetual subordinated bonds	-16	-16
Repayment of non-current interest-bearing debt	-	-648
Repayment of current interest-bearing debt	-1,175	-727
Non-current interest-bearing debt newly issued	-	492
Current interest-bearing debt newly issued	1,375	727
Cash flow from financing activities	**115**	**-235**
Movements in cash and cash equivalents	**11**	**-97**
Balance of cash and cash equivalents as at 1 January	72	169
Balance of cash and cash equivalents as at 31 December	**83**	**72**

* In 2019, Joulz Diensten has been sold, with a result after taxes of € 251 million.

Consolidated statement of changes in group equity

	Equity attributable to Stedin Holding N.V. shareholders											
x € 1 million	Paid up and called-up share capital	Share premium	Revaluation reserve	Legal reserve	Cash flow hedge reserve	Cost of hedging reserve	Retained earnings	Undistributed profit	Total	Perpetual subordinated bond loan	Non-controlling interests	Total group equity
As at 1 January 2019	**497**	**-**	**754**	**-**	**-65**	**-1**	**907**	**106**	**2,198**	**501**	**-**	**2,699**
Total other comprehensive income after income tax	-	-	-12	-	-6	-	-	-	**-18**	-	-	**-18**
Profit after income tax 2019	-	-	-	-	-	-	-	313	**313**	12	-	**325**
Total comprehensive income	**-**	**-**	**-12**	**-**	**-6**	**-**	**-**	**313**	**295**	**12**	**-**	**307**
Transactions with shareholders												
Dividend payments relating to 2018	-	-	-	-	-	-	-	-46	**-46**	-	-	**-46**
Coupon on perpetual subordinated bond loan	-	-	-	-	-	-	-	-	**-**	-16	-	**-16**
Tax on coupon on perpetual subordinated bond loan	-	-	-	-	-	-	-	-	**-**	4	-	**4**
Total transactions with shareholders	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-46**	**-46**	**-12**	**-**	**-58**
Other												
Profit appropriation 2018	-	-	-	-	-	-	60	-60	**-**	-	-	**-**
Release from revaluation reserve due to depreciation of regulated networks	-	-	-22	-	-	-	22	-	**-**	-	-	**-**
Reclassification	-	-	-	-	1	-	-	-	**1**	-	-	**1**
Total other	**-**	**-**	**-22**	**-**	**1**	**-**	**82**	**-60**	**1**	**-**	**-**	**1**
As at 31 December 2019	497	-	720	-	-70	-1	989	313	**2,448**	501	-	**2,949**
Total other comprehensive income	-	-	-29	4	-8	1	-4	-	**-36**	-	-	**-36**
Profit after income tax 2020	-	-	-	-	-	-	-	30	**30**	12	-	**42**
Total comprehensive income	**-**	**-**	**-29**	**4**	**-8**	**1**	**-4**	**30**	**-6**	**12**	**-**	**6**
Transactions with shareholders												
Dividend payments relating to 2019	-	-	-	-	-	-	-	-52	**-52**	-	-	**-52**
Coupon on perpetual subordinated bond loan	-	-	-	-	-	-	-	-	**-**	-16	-	**-16**
Tax on coupon on perpetual subordinated bond loan	-	-	-	-	-	-	-	-	**-**	4	-	**4**
Total transactions with shareholders	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-52**	**-52**	**-12**	**-**	**-64**
Other												
Profit appropriation 2019	-	-	-	-	-	-	261	-261	**-**	-	-	**-**
Release from revaluation reserve due to depreciation of regulated networks	-	-	-29	-	-	-	29	-	**-**	-	-	**-**
Total other	**-**	**-**	**-29**	**-**	**-**	**-**	**290**	**-261**	**-**	**-**	**-**	**-**
As at 31 December 2020	**497**	**-**	**662**	**4**	**-78**	**-**	**1,275**	**30**	**2,390**	**501**	-	**2,891**

Capital management

The primary goal of Stedin Group's capital management is to safeguard access to the capital and money markets in order to optimise its financing structure and costs in accordance with the long-term financial plan and economic parameters determined by the regulator in each regulation period. Given the capital-intensive nature of the company, it is important to be able to contract financing in various different financing markets and thereby create a balanced financing mix. Stedin Group can influence its capital structure by altering its leverage ratio. Stedin Group regards both capital (including the perpetual subordinated bond loan) and non-subordinated debt as relevant components of its financing structure and therefore of its capital management. The present interest-bearing debt was raised in roughly equal proportions in the US private placement market, the European bond market and the private loan market. In addition to maintaining relationships with these existing investors in the above-mentioned financing markets, Stedin Group also maintains relationships with six Dutch and international banks that have all made financing capacity available to Stedin. These banks can also offer a wide range of financial products and services if required.

Since 2017, a Stedin Group financing strategy was formulated that targets the ratios which are relevant for the credit rating and particularly the core ratio: cash flow from operating activities/net interest-bearing debt. In this context, for the purpose of calculating the ratios, the perpetual subordinated bond loan issued in 2014 is classified by Standard & Poor's as an instrument with a 50% equity and 50% debt component. This qualification differs from the treatment under IFRS, for which the perpetual subordinated bond loan is treated entirely as equity. Net interest-bearing debt (excluding discontinued operations) is defined as non-current and current interest-bearing debt less cash and cash equivalents.

Credit rating

A key pillar in Stedin Group's financial policy is to maintain good access to the available sources of financing, including the money and capital markets. It is important to that end that existing and potential capital providers have proper insight into Stedin Group's creditworthiness.

Stedin Holding N.V. and Stedin Netbeheer B.V. each have a credit rating with the rating agency Standard & Poor's (below: S&P). This rating consists of a long-term rating with outlook and a short-term rating. The outlook indicates the expected change in the long-term rating for the coming years.

The most recent rating awarded by S&P in September 2020 is A- with a stable outlook for the long term and A-2 for the short term. This rating is unchanged from 2019.

The most important ratio for Stedin Group is the ratio of Funds from Operations (below: FFO) to the net debt position for freely available cash and cash equivalents (Net debt), which is a customary ratio in the market for the sustainability of debt. S&P applies a multi-year average of this ratio as part of its assessment of the credit rating. Stedin Group presents this figure only at year-end 2020 and 2019.

The calculation of this ratio follows the figures in these financial statements, supplemented with the adjustments applied by S&P. These analytical adjustments are made in order to enhance the comparability of the figures as well as the financial position between Stedin Group and other businesses. The main adjustment concerns the perpetual subordinated bond loan as an instrument with a 50% equity component and a 50% debt component (by contrast to IFRS, where it is part of equity in its entirety). In addition, pension liabilities are included in the S&P definition of debt.

The calculation is set out in the table below:

x € 1 million	2020	2019
EBITDA*	461	489
-/- Interest paid	-57	-70
-/- Tax paid	10	-16
-/- S&P adjustments**	-11	-9
S&P - Funds from Operations	403	394
Non-current interest-bearing debt	2,826	2,913
Current interest-bearing debt	276	5
Lease liabilities	81	87
-/- Cash and cash equivalents	-83	-72
IFRS - Net debt	3,100	2,933
+ S&P adjustments**	261	263
S&P - Net debt	3,361	3,196
	-	0
FFO / Net Debt – S&P adjusted	**12.0%**	**12.3%**

* Profit before income tax adjusted for depreciation, amortisation, net interest payable, profit of group entities sold, revaluations and share of minority interests.

** These adjustments are published by S&P on behalf of Stedin Group for 2019.

Current and non-current interest-bearing debt, interest paid and tax paid in accordance with these financial statements. Lease liabilities are part of non-current interest-bearing debt and are presented separately for comparative purposes.

The ratio FFO/Net Debt fell to 12.0% in 2020, from 12.3% in 2019. The increase in the FFO by € 9 million was largely driven by lower taxes paid, despite the lower operating profit (EBITDA). The net debt position (Net Debt) at year-end 2020 was € 168 million higher than in 2019 due to short term cash loans. Total interest-bearing loans outstanding increased by € 184 million.

Tax paid in 2020 was € 26 million lower and is a receivable in 2020 due to the change in the deposit payments in 2020. The lower operating profit of € 28 million was attributable to lower capacity rates due to lower energy consumption of customers due to the corona virus as well as the sale of the business units Joulz Infradiensten B.V. and Joulz Meetbedrijf B.V. In addition, purchasing costs increased as a result of the tariff increase by TenneT.

S&P adjustments can be viewed in the S&P rating report of September 2020 (which is available via the Investor Relations website) on the basis of figures in the 2019 financial statements. For the most recent rating reports, see our website: http://www.stedingroep.nl/investor-relations.

General information

Three-year overview

The amounts under Result, Balance sheet and Cash flow 2016 relate to the integrated energy company Eneco (Eneco Holding N.V.). The energy company split off in 2017 is presented separately under assets held for sale.

	Unit	2020	2019	2018
Income statement				
Revenue	€ mln	1,216	1,220	1,270
Total operating income	€ mln	1,229	1,234	1,286
Total operating expenses	€ mln	1,100	1,062	1,074
EBITDA	€ mln	463	489	509
Operating profit	€ mln	129	172	212
Profit after income tax	€ mln	42	325	118
Balance sheet				
Property, plant and equipment	€ mln	7,057	6,753	6,406
Total assets	€ mln	7,572	7,289	6,991
Equity	€ mln	2,891	2,949	2,699
Total interest-bearing debt	€ mln	3,183	3,004	3,044
Investments in non-current assets	€ mln	620	646	607
Cash flows				
Cash flow from operating activities	€ mln	408	374	349
Cash flow from investing activities	€ mln	-512	-236	-475
Cash flow from financing activities	€ mln	115	-235	222
Credit rating				
Long-term rating (S&P)	rating	A-	A-	A-
Solvency*	%	43.0	43.3	43.3
FFO/Net debt**	ratio	12.0	11.7	12.2
Shares at 31 December				
Number of shares outstanding (x 1,000)	number	4,971	4,971	4,971
Overig				
Electricity				
Active connections	number	2,322,692	2,302,475	2,285,701
Installed cables	km	852	1,034	806
Gas				
Active connections	number	2,120,821	2,120,671	2,114,935
Installed pipelines	km	197	221	250

	Unit	2020	2019	2018
Distributed volumes				
Electricity	GWh	20,171	21,100	21,330
Gas	mln m3	4,365	4,651	4,852
Other				
Average outage duration for electricity	minutes	26	20	17
Average outage duration for gas	seconds	26	87	69
Facilitated supplier switches	number	883	824	713

* Equity plus profit or loss for the period less expected dividend distributions for the current financial year divided by the balance sheet total, adjusted for the expected dividend distribution, connection contributions received and free cash and cash equivalents.

** This ratio is calculated in accordance with the Standard & Poor's (S&P) method. Funds From Operations (FFO) divided by net debt. FFO consists of EBITDA adjusted for lease expense, adjusted interest expense and tax expense. The net debt position is the sum of current and non-current interest-bearing debt, adjusted for off-balance liabilities, the hybrid loan and minus cash and cash equivalents. The ratio was calculated as at 31 December 2017. S&P applies a multi-year weighting to determine this ratio when assessing the credit rating.

The comparative figures of the FFO/Net Debt and Solvency ratios are not included given the limited comparability between the grid operator Stedin Holding N.V. in 2018 and 2017 on the one hand and Eneco Holding N.V. (including the energy company) in 2016 on the other.

Disclaimer

This report may contain forward-looking statements and projections. These can be identified by words such as 'anticipate', 'intend', 'estimate', 'assume', 'expect' or the negative equivalents of these terms and similar terms. These forward-looking statements and projections are based on current expectations and assumptions concerning expected developments and other factors that can affect Stedin Group. These are not historical facts or guarantees of future results. Actual results and events can differ from the current expectations due to factors such as economic trends, technological developments, changes in laws and regulations, the behaviour of suppliers and customers, currency risks, tax developments, financial risks or political, economic and social conditions.

Further information on potential risks and uncertainties that can affect Stedin Group is stated in the documents filed by Stedin Group with Euronext Amsterdam and the Euro MTF Market of the Luxembourg Stock Exchange.

Except as required on the basis of laws and regulations, Stedin Group rejects any obligation or liability to revise or adjust projections and forecasts in this document on the basis of new information, future events or otherwise, or to publicly disclose such adjustments or revisions.

The Dutch version of our annual report is published on 18 February 2021. The English language versions is expected to be published on 15 March 2021, and will be posted on our website: www.stedingroup.com. This document is an extract from our Dutch Annual Report. In case of any discrepancy between both language versions, the Dutch version prevails. Certain parts of the annual report and the financial statements have been audited by our auditor.

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