

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Eligible Green Project Portfolio

Stedin Group
18 September 2019

CONTENTS

Overall Evaluation of the Green Bond	3
ISS ESG ASSESSMENT SUMMARY	3
Contribution of the Green Bond to the UN SDGs	4
ISS ESG SPO ASSESSMENT	5
PART I: GREEN BOND PRINCIPLES	5
PART II: SUSTAINABILITY QUALITY OF THE ELIGIBLE GREEN PROJECT PORTFOLIO	9
1. Integration of renewable energy to the grid	10
2. Smart grids and smart meters	11
3. Charging stations	13
4. Green Commercial Buildings	13
PART III: ASSESSMENT OF STEDIN'S ESG PERFORMANCE	15
ANNEX 1: ISS ESG Corporate Rating	17
ANNEX 2: Methodology	22
About ISS ESG SPO	23

Overall Evaluation of the Green Bond

Stedin Group (“Stedin”) commissioned ISS ESG to assist with its Green Finance Framework by assessing three core elements to determine the sustainability quality of the Bond:

1. Stedin’s Green Finance Framework – benchmarked against the International Capital Market Association’s (ICMA) Green Bond Principles (GBPs).
2. The Eligible Green Project Portfolio – whether the projects align with ISS ESG’s issue-specific key performance indicators (KPIs) (See Annex 2).
3. Stedin’s sustainability performance, according to the ISS ESG Corporate Rating.

ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ¹
Part 1: Performance against the GBPs	The issuer has defined a formal concept for its Green Bonds regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the ICMA GBPs.	Positive
Part 2: Sustainability quality of the project portfolio	The overall sustainability quality of the project portfolio in terms of sustainability benefits, risk avoidance and minimisation is good based upon the ISS ESG Green Bond KPIs. The Green Bond KPIs contain a clear description of eligible asset categories which include renewable energy, energy efficiency, clean transportation and green buildings. All assets of the Eligible Green Project Portfolio are located in the Netherlands, a highly regulated and developed country. Legislative frameworks in this country set high standards, which reduce environmental and social risks.	Positive
Part 3: Issuer sustainability performance	The issuer itself shows a good sustainability performance and has been classified as ‘Prime’ within the methodology of the ISS ESG Corporate Rating. The issuer is engaged in programs to facilitate the integration of renewable energies into the grid and has equipped more than 80% of its customers with smart meters. It is rated 6 th out of 42 companies within its sector as of 18.09.2019.	Status: <i>Prime</i> Rating: <i>B-</i> Prime threshold: <i>C+</i>

¹ The ISS ESG’s present evaluation will remain valid until any modification of the Green Finance Framework or addition of new assets into the Eligible Green Project Portfolio by the issuer and as long as the issuer’s Corporate Rating does not change (last modification on the 14.08.2019). The controversy check of the underlying assets has been conducted on the 29.07.2019.










Contribution of the Green Bond to the UN SDGs

Based on the assessment of the sustainability quality of the Eligible Green Project Portfolio and using a proprietary methodology, ISS ESG assessed the contribution of the Stedin's Green Bond to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment is displayed on 5-point scale (see Annex 2 for methodology):

Significant Obstruction	Limited Obstruction	No Net Impact	Limited Contribution	Significant Contribution
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Each of the Green Bond's Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS CATEGORY	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
RENEWABLE ENERGY		
Investments and / or expenditures to directly connect renewable energy production and storage units to the grid	Significant contribution	 
Investments and / or expenditures aimed at integrating and enhancing the transmission capacity for renewable energy in the grid	Significant contribution	 
ENERGY EFFICIENCY		
Investments and / or expenditures in smart grid technologies and installation of smart meters	Limited contribution	 
CLEAN TRANSPORTATION		
Investments in electric vehicle charging stations and related infrastructure	Limited contribution	 
GREEN BUILDINGS		
New, existing or refurbished buildings which have received at least one strict certification	Significant contribution	

ISS ESG SPO ASSESSMENT

PART I: GREEN BOND PRINCIPLES

1. Use of Proceeds

The net proceeds of Green debt instruments will be exclusively used to finance and / or refinance in whole or in part eligible projects ("Eligible Green Projects") in the following categories, together forming the "Eligible Green Project Portfolio".

ICMA GBP CATEGORY	ELIGIBLE GREEN PROJECTS	ELIGIBILITY TO GREEN BOND
Renewable Energy	<ul style="list-style-type: none"> • Projects aimed at increasing the production from renewable energy sources: Investments and / or expenditures to directly connect renewable energy production and storage units to the grid (includes power-lines and related infrastructure such as substations) • Projects aimed at integrating renewables in the grid, while enhancing grid stability: Investments and / or expenditures aimed at integrating and enhancing the transmission capacity for renewable energy in the grid 	100% (Apply renewable power generation ratio to the capital investment value. Defined as: renewables installed capacity / all sources electricity capacity in the Stedin's grid for the relevant year)
Energy Efficiency	<ul style="list-style-type: none"> • Projects aimed at improving energy efficiency and the reliability of the energy supply: Investments and / or expenditures in smart grid technologies and installation of smart meters 	100%
Clean Transportation	<ul style="list-style-type: none"> • Projects aimed at promoting climate-neutral mobility: Investments in electric vehicle charging stations and related infrastructure 	100%
Green Buildings	<ul style="list-style-type: none"> • Projects aimed at the acquisition and renovation of low-carbon buildings in The Netherlands: <ol style="list-style-type: none"> a. New, existing or refurbished buildings which have received at least one (or more) of the following classifications: <ul style="list-style-type: none"> - LEED: 'Gold' and above - BREAAAM: 'Very Good' and above - DGNB: 'Gold' and above - EPBD: A - Refurbished buildings with at least two steps improvement in energy label up to at least EPBD label B b. Individual investments in Green Buildings to ensure environmental improvements such as renewable energy projects (e.g. solar panel installations), energy efficient lighting (e.g. LED) 	100%

Opinion: ISS ESG considers the use of proceeds description provided by Stedin's Green Finance Framework as aligned with the GBPs. The expected environmental and social benefits are clearly stated. The sustainability objectives of the issuance are in line with Stedin's sustainability strategy.

2. Process for Project Evaluation and Selection

Projects financed and / or refinanced through the Green debt instruments proceeds are evaluated and selected based on compliance with the “Eligibility Criteria” defined in the section above (Use of Proceeds) by Stedin’s Green Finance Committee.

Stedin’s Green Finance Committee is formed by members of Treasury, Corporate Responsibility, and other parties to be nominated as subject matter experts from the various sectors of allocated assets. The Green Finance Committee monitors the Eligible Green Project Portfolio and is also responsible for:

- Reviewing the content of Stedin’s Green Finance Framework and updating it to reflect changes in corporate strategy, technology, market developments (such as the introduction of the EU Green Bond Standards) on a best effort base
- Excluding projects that no longer comply with the Eligibility Criteria or have been disposed of and replacing them on a best efforts basis
- As Green debt instruments mature, removing the oldest projects for an equivalent investment amount, to ensure that Green Debt Instruments continue to fund new projects
- Preparing allocation and impact reports associated with the framework

The Green Finance Committee meets at least on an annual basis.

Project evaluation and selection also complies with Stedin’s corporate and sustainability objectives as well as with applicable national, European and international environmental and social standards and regulations, to ensure a stringent management of any potential negative environmental and social impacts.

Stedin’s sustainability guidelines and policies define the framework and minimum standards for the business processes, including those financed with the proceeds of Green debt instruments issued under this Framework. Stedin also applies risk management measures in its capital allocation decisions which are supported by company-wide planning, reporting and controlling systems. Examples of internal policies and guidelines, which mitigate any social and environmental risks potentially associated with Eligible Green Projects, are:

- One Planet Procurement Policy
- Supplier Code of Conduct
- Code of Conduct
- Corporate Governance Code

Stedin’s approach to environmental, social and sustainability is described on Stedin’s Annual Report² and on Stedin’s website³.

Opinion: ISS ESG finds that the process for project evaluation and selection is aligned with the GBPs. The eligibility criteria for the financed projects are transparently defined and the process of selection is well structured. ISS ESG welcomes the transparency and clear definition of the responsibilities of the Green Finance Committee and the involvement of relevant stakeholders.

² Stedin Annual Report: <http://annualreport.stedingroup.com/2018/english/>

³ Sustainability of Stedin operations: www.stedingroep.com

3. Management of Proceeds

Stedin intends to allocate the proceeds from the Green debt instruments to an Eligible Green Project Portfolio, selected in accordance with the use of proceeds criteria and evaluation and selection process presented above. This portfolio consists of new and / or existing projects.

Stedin will strive to maintain a level of allocation for the Eligible Green Project Portfolio which matches or exceeds the balance of net proceeds from its outstanding Green debt instruments. Additional Eligible Green Projects will be added to the Issuer's Eligible Green Project Portfolio to the extent required, as a result of, for instance, divestments, to ensure that an amount equal to the net proceeds from outstanding Green debt instruments will be allocated to Eligible Green Projects until the maturity of the Green debt instruments.

Pending the full allocation to the Eligible Project Portfolio, Stedin will hold and / or invest the balance of net proceeds not yet allocated in its treasury liquidity portfolio (in cash or cash equivalents, money market funds, etc).

Opinion: *ISS ESG finds that the management of proceeds is aligned with the GBPs. The proceeds from the Green debt instruments are tracked in an appropriate manner. The addition of eligible green projects to Stedin's Eligible Green Project Portfolio in case of divestment is positive.*

4. Reporting

The Green Bond Principles require Green Bond issuers to provide information on both the allocation of proceeds and the expected impact of the projects.

Stedin will make and keep publicly available reporting on the allocation of net proceeds to the Eligible Green Project Portfolio and wherever feasible reporting on the impact of the Eligible Green Project Portfolio, at least at the category level, after a year from the issuance of the applicable Green debt instruments to be renewed annually until full allocation of the Green Debt instrument net proceeds. Any material developments, such as modification of the Framework or allocation portfolio, will be reported in a timely manner.

Stedin intends to provide aggregated reporting for all of Stedin's Green debt instruments and other potential green financings outstanding. Reports will be available on <https://www.stedingroep.nl/eng/investor-relations>.

a) Allocation Reporting

The allocation report will provide:

- the total amount of investments and expenditures in the Eligible Green Projects Portfolio;
- the amount and/or percentage of new and existing projects⁴ (share of financing and refinancing);
- the year of investment / disbursement;
- the balance of unallocated proceeds;
- the geographical distribution of the assets (at country level).

⁴ New projects refer to the projects that have been disbursed in the year of the issuance

b) Impact Reporting

Stedin intends to report on the environmental impacts of the projects funded with the Green Debt instruments proceeds through a dedicated impact report. These may be supplemented by qualitative and/or case-study reports on outcomes and impacts of the projects funded. Where relevant, information may be provided on data reporting and impact assessment methodologies to increase transparency.

Stedin intends to align, on a best effort basis, the reporting with the portfolio approach described in "Green Bonds - working towards a Harmonized Framework for Impact Reporting (June 2019)⁵".

The impact report will include:

- Description of the Green Projects,
- Breakdown of Green Projects by nature of what is being financed (assets, capital expenditures, operating expenditures), and
- Metrics regarding projects' environmental impacts as displayed on the table below

ELIGIBLE GREEN BOND CATEGORY	POTENTIAL IMPACT REPORTING INDICATORS
Renewable Energy	<ul style="list-style-type: none"> • Capacity of renewable energy production connected in the grid (in MW) • Expected increase of production of renewable energy (MWh) • Estimated annual CO₂ emissions avoided (in tCO₂ and in T CO₂eq.)
Energy efficiency	<ul style="list-style-type: none"> • Number of Smart grid components installed (such as smart meters, smart stations, wireless telecom networks - in meters) • Estimate of annual energy consumption savings by clients, indirect impact
Clean transportation	<ul style="list-style-type: none"> • Number of EV charging points (#)
Green Buildings	<ul style="list-style-type: none"> • Estimated annual CO₂ emission reduction (in t CO₂eq.) • Estimated annual energy savings (MWh) • Overview of sustainable labels and certificates for eligible buildings

Opinion: ISS ESG finds that the reporting is aligned with the GBPs. Transparent and detailed impact indicators are to be reported, as well as granular information on allocation. Reporting until full allocation of the proceeds is aligned with market best practice.

External review

a) Second party opinion

This Stedin Green Finance Framework has been reviewed by ISS ESG. The Second Party Opinion prepared by ISS ESG as well as the Green Finance Framework will be made available to the Green Debt instruments' investors on <https://www.stedingroep.nl/eng/investor-relations>.

b) Limited assurance

Stedin intends to request a limited assurance report by an independent auditor regarding the allocation of the proceeds from any Green debt instruments issued under this Green Finance Framework. Such report will be issued annually until all the proceeds of the Green debt instruments have been allocated, confirming that an amount equal to the net proceeds of the Green debt instruments have been allocated in compliance with the Eligibility Criteria set out in this Green Finance Framework.

⁵ <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2019/Handbook-Harmonized-Framework-for-Impact-Reporting-WEB-100619.pdf>

PART II: SUSTAINABILITY QUALITY OF THE ELIGIBLE GREEN PROJECT PORTFOLIO

Relevant ISS ESG KPI sets for Stedin's Green Bond Use of Proceeds categories







ISS ESG assessed the ESG risk management in place at an asset level for the project categories of this Green Debt instrument. To conduct the assessment, ISS ESG defined ESG KPI sets capturing the key ESG challenges faced by those projects categories.

ISS ESG KPI SETS	STEDIN'S ASSET CATEGORIES
Integration of renewable energy to the grid	<ul style="list-style-type: none">• Investments and / or expenditures to directly connect renewable energy production and storage units to the grid• Investments and / or expenditures aimed at integrating and enhancing the transmission capacity for renewable energy in the grid
Smart grids and smart meters	<ul style="list-style-type: none">• Investments and / or expenditures in smart grid technologies and installation of smart meters
Charging stations	<ul style="list-style-type: none">• Investments in electric vehicle charging stations and related infrastructure
Green Buildings	<ul style="list-style-type: none">• New, existing or refurbished buildings which have received at least one strict certification

Evaluation of the assets

1. Integration of renewable energy to the grid

As a Use of Proceeds category, integration of renewable energy to the grid has a significant contribution to SDG 7 “Affordable and Clean Energy” and to SDG 13 “Climate Action”. Additionally, when considering the deeper ESG management, integration of renewable energy to the grid can be associated with other SDGs. The table below presents the findings of ISS ESG assessment of the assets (re-) financed against KPIs and the association with SDGs based on a mapping methodology.

ASSESSMENT AGAINST ISS ESG KPI	ASSOCIATION WITH THE SDGS
1.1. Site selection	
<p>✓ None of the assets are located in key biodiversity areas (Ramsar sites, IUCN protected areas I-IV, UNESCO World Heritage Sites).</p>	
1.2. Community dialogue	
<p>✓ 100% of relevant assets feature community dialogue as an integral part of the planning process according to Dutch legislation (e.g. sound information of communities, community advisory panels and committees, surveys and dialogue platforms, grievance mechanisms and compensation schemes).</p>	 
1.3. Environmental aspects of construction and operation	
<p>✓ 100% of the relevant assets meet basic environmental standards and requirements at construction and operation phase according to legislation (e.g. noise mitigation, environmental impact during construction work). However, no information is available on further environmental standards and requirements (e.g. further measures to protect fauna and flora).</p>	 
<p>✓ For 100% of the assets, low-impact methods are applied during cable-laying (e.g. horizontal drilling, consideration of breeding periods and affected fauna and flora).</p>	 
1.4. Standards for decommissioning and recycling	
<p>✓ For 100% of the assets, environmental and social impact at end-of-life will be minimized (e.g. redeployment at the highest grade possible).</p>	
1.5. Safety of networks and equipment	
<p>✓ For 100% of the assets, the operational safety is ensured (e.g. proper risks assessment, inspections and maintenance, emergency response and preparedness).</p>	

1.6. Working conditions during construction and operation

- ✓ 100% of assets provide for high labour and health and safety standards for construction and maintenance work according to Dutch legislation (e.g. ILO core conventions).



Controversy assessment

A controversy assessment on the included assets did not reveal any controversial activities or practices that could be attributed to Stedin.

2. Smart grids and smart meters

As a Use of Proceeds category, smart electricity grids and smart meters have a limited contribution to SDG 7 “Affordable and Clean Energy” and a limited contribution to SDG 13 “Climate Action”. Additionally, when considering the deeper ESG management, smart grids and smart meters can be associated with other SDGs.

The table below presents the findings of an ISS ESG assessment of the assets (re-) financed against KPIs and the association with SDGs based on a mapping methodology.

ASSESSMENT AGAINST ISS ESG KPI	ASSOCIATION WITH THE SDGs
2.1. Environmental aspects of construction and operation	
✓ For 100% of the assets, environmental standards are in place for construction phase (e.g. noise mitigation, minimisation of environmental impact during construction work).	
2.2. Environmental aspects of smart meters	
✓ 100% of the assets do not contain substances of concern in smart meters.	
✓ 100% of the assets are taken back and are recycled at the end of their lives.	
2.3. Community dialogue	
✓ All relevant assets feature community dialogue as an integral part of the planning process (e.g. sound information of communities, community advisory panels and committees, surveys and dialogue platforms, grievance mechanisms and compensation schemes).	

2.4. Energy efficiency

- ✓ 100% of the smart meters and smart grids assets achieve high standards on energy efficiency.



2.5. Working conditions during construction and maintenance work

- ✓ 100% of assets provide for high labour and health and safety standards for construction and maintenance work according to Dutch legislation (e.g. ILO core conventions).



2.6. Standards for supply chain management

- ✓ 100% of assets provide for good and binding labour and health and safety standards in the supply chain.
- ✓ 100% of assets provide for good and binding environmental standards in the supply chain.



2.7. Data protection and information security

- ✓ 100% of assets meet minimum requirements for data and information security.





Controversy assessment

Due to the low controversial nature of the assets, ISS ESG did not conduct a controversy screening at the asset level. At the company level, Stedin does not face any controversy.

3. Charging stations

As a Use of Proceeds category, charging stations have a limited contribution to SDG 7 “Affordable and Clean Energy” and to SDG 13 “Climate Action”. Additionally, when considering the deeper ESG management, charging stations can be associated to other SDGs.

The table below presents the findings of an ISS ESG assessment of the assets (re-) financed against KPIs and the association with SDGs based on a mapping methodology.

ASSESSMENT AGAINST ISS ESG KPI	ASSOCIATION WITH THE SDGs
3.1. Environmental aspects of charging stations	
<p>✓ 100% of the assets underwent a comprehensive life-cycle-assessment.</p>	
3.2. Working conditions during construction and maintenance work	
<p>✓ 100% of assets provide for high labour and health and safety standards for construction and maintenance work according to Dutch legislation (e.g. ILO core conventions).</p>	


Controversy assessment

Due to the low controversial nature of the assets, ISS ESG did not conduct a controversy screening at the asset level. At the company level, Stedin does not face any controversy.

4. Green Commercial Buildings

As a Use of Proceeds category, green commercial real estate has a strong contribution to the SDG 11 “Sustainable cities and communities” when achieving high standards regarding energy efficiency. Additionally, when considering the deeper ESG management, commercial real estate can be associated to other SDGs.

The table below presents the findings of an ISS ESG assessment of the assets (re-) financed against KPIs and the association with SDGs based on a mapping methodology.

ASSESSMENT AGAINST ISS ESG KPI	ASSOCIATION WITH THE SDGs
4.0. Energy Efficiency prerequisites	
<p>✓ All the assets underwent an appropriate and detailed selection process that ensures good standards regarding energy efficiency.</p>	
<p>All the assets have achieved an Energy Performance Certificate labelled “A++” (on a scale from A++++ to G).</p>	

4.1. Site selection

- ✓ None of the assets are located in key biodiversity areas (Ramsar sites, IUCN protected areas I-IV, UNESCO World Heritage Sites).
- ✓ 100% of the assets are located within a maximum of 1km from one or more modalities of public transport.



4.2. Construction standards

- ✓ 100% of the assets are located in the Netherlands, where high labour and health and safety standards are in place for construction and maintenance work (e.g. ILO core conventions).
- ✓ 100% of the assets provide for basic sustainable procurement (eg. suppliers' selection includes sustainability criteria and ISO certification requirements). However, no information is specifically available on procurement of building material.



4.3. Water use minimization in buildings

- For 100% of the assets, no information is available on measures to reduce water use (eg. water metering, high-efficiency fixtures and fixings).



4.4. Safety of buildings users

- ✓ For 100% of the assets, the Dutch Building Decree 2012 (Bouwbesluit 2012: Chapter 5 and NEN 7120) ensures operational safety for constructional measures (e.g. fire safety, elevator safety).



4.5. Sustainability labels / Certificates

- For 100% of the assets, no information is available on whether the assets obtained a (or equivalent of a) BREEAM "Very Good", DGNB "Silver/Gold", LEED "Gold", HQE "excellent" certificate or better certification.



Controversy assessment

A controversy assessment on the included projects did not reveal any controversial activities or practices that could be attributed to the building projects or to Stedin.

The methodology for the asset evaluation can be found in Annex 2.

PART III: ASSESSMENT OF STEDIN'S ESG PERFORMANCE

The ISS ESG Corporate Rating comprises a rating scale from A+ (excellent) to D- (poor).

COMPANY	RATING	STATUS
STEDIN GROUP	B -	PRIME

This means that the company performed well in terms of sustainability, both compared against others in the industry and in terms of the industry-specific requirements defined by ISS ESG. In ISS ESG's view, the securities issued by the company therefore all meet the basic requirements for sustainable investments.

As of 18.09.2019, this rating places Stedin 6th out of 42 companies rated by ISS ESG in the Utilities/Network operators sector.

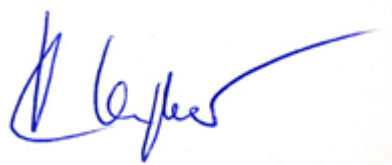
Key Challenges facing companies in term of sustainability management in this sector are:

- Facilitation of the energy transition and resource efficiency
- Environmentally safe operation of plant and infrastructure
- Accessibility and reliability of energy and water supply
- Business ethics and government relations
- Worker safety and accident prevention

For all the key issues, Stedin rates above the average for the sector. A very significant outperformance was achieved in "Worker safety and accident prevention".

The company does not face any controversy, which is in line with the minor controversy risk of its sector.

Details on the rating of the issuer can be found in Annex 1.



Robert Hassler, Head of ISS ESG
London/Munich/Rockville/Zurich

DISCLAIMER

1. Validity of the SPO: For Stedin's first issuance following the SPO release date.
2. ISS esg uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
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ANNEX 1: ISS ESG Corporate Rating

The following pages contain extracts from Stedin's 2019 ISS ESG Corporate Rating.

ESG Corporate Rating

Stedin Holding N.V.

Industry	Utilities/Network Operators	Status	Prime
Country	Netherlands	Rating	B-
ISIN	XS1878266326	Prime Threshold	C+
		Decile Rank	2



Absolute Rating



The assessment of a company's sustainability performance is based on approximately 100 criteria, selected specifically for each industry. A company's failure to disclose, or lack of transparency, regarding these matters will impact a company's rating negatively

Decile Rank



Low relative performance

High relative performance

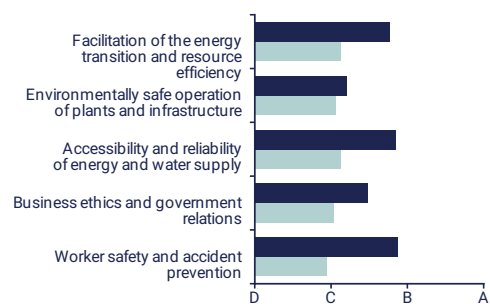
Indicates decile rank relative to industry group. A decile rank of 1 indicates a high relative ESG performance, while a 10 indicates a lower relative ESG performance.

Industry Leaders

Company name (in alphabetical order)	Country	Grade
Alliander N.V.	NL	B
Red Eléctrica Corp. S.A.	ES	B
Terna - Rete Elettrica Nazionale Società per Azioni	IT	B

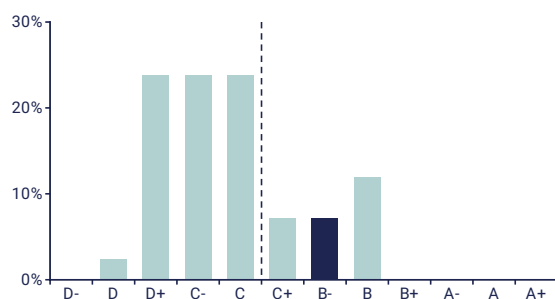
Legend: ■ Industry ■ Company --- Prime

Key Issue Performance

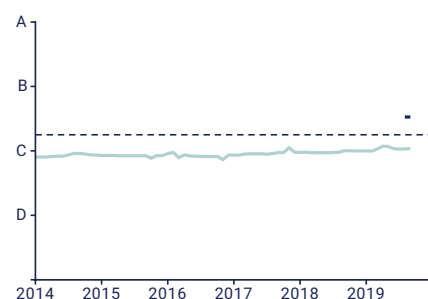


Distribution of Ratings

42 companies in the industry



Rating History



Stedin Holding N.V.

Analyst Opinion

Francois Barbé
Sector specialist



Sustainability Opportunities

Stedin Holdings (Stedin) engages in the development, operation, and maintenance of natural gas and electricity distribution grids in the Netherlands. As part of its power distribution business, the company is engaged in programs to facilitate the integration of renewable energies into the grid and has equipped more than 80% of its customers with smart meters. Overall, the operation of electricity and natural gas distribution networks does not make a significant contribution to global sustainable development.

Sustainability Risks

For an electricity and natural gas distribution network operator, the main social issues include safeguarding the health and safety of employees and contractors, and ensuring a reliable energy supply and system stability. The company has taken adequate measures to ensure the reliability of the electricity network, which is also illustrated by a relatively low average electricity outage duration (18.3 minutes in 2018). Concerning health and safety, Stedin has set up certified management systems and no fatal incidents among employees or contractors have occurred in recent years. However, the company does not disclose data on the accident rate for its contractors. From an environmental perspective, Stedin is exposed to network losses and gas leakages. The company's electricity distribution losses are at a common industry level. Concerning the natural gas pipeline integrity, the company has implemented sound measures such as risk assessments and regular inspections. With regard to climate change, Stedin is committed to achieve carbon neutrality until 2030, yet it remains unclear whether this target is in line with the 2°C increase scenario.

Governance Opinion

Stedin Holding is owned by 44 Dutch municipalities with the largest shares held by Rotterdam (31.69%) and Den Haag (16.55%) as at June 28, 2019. While the company's chairman, Mr Pieter Trienekens, is not independent, all the remaining board members are independent (as at July 2, 2019). In addition, a fully independent audit committee and predominantly independent remuneration and nomination committees have been set. Stedin discloses its remuneration policy for executives. Yet, it remains unclear whether the policy includes important elements for sustainable value creation such as long-term incentive components.

Regarding Stedin Holding's governance of sustainability, a board committee in charge of this issue seems to be missing. In addition, the company's executive management team does not receive any kind of variable compensation in which sustainability performance objectives could be integrated. The company's group-wide ethics code covers relevant issues such as corruption, antitrust and conflicts of interests. An anonymous and confidential hotline is available for employees, and whistleblower protection is ensured.

Stedin Holding N.V.

Methodology - Overview

The ESG Corporate Rating methodology was originally developed by oekom research and has been consistently updated for more than 25 years.

ESG Corporate Rating - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

Analyst Opinion - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

Controversial Business Practices - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

Decile Rank - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

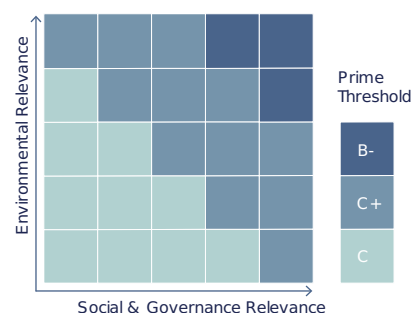
Distribution of Ratings - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

Stedin Holding N.V.

Methodology - Overview

Industry Classification - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



Industry Leaders - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

Key Issue Performance - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

Major Shareholders & Ownership Summary - Overview of the company's major shareholders at the time of generation of this report. All data as well as the categorisation system for the investor types is based on information from S&P Capital IQ.

Rating History - Development of the company's rating over time and comparison to the average rating in the industry.

Rating Scale - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

Sources of Information - A selection of sources used for this report is illustrated in the annex.

Status & Prime Threshold - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

ANNEX 2: Methodology

ISS ESG Green Bond KPIs

The ISS ESG Green Bond KPIs serves as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of Stedin's Green Bond.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting.

To review the KPIs used in this SPO, please contact Federico Pezzolato (details on next page) who will send them directly to you.

Asset evaluation methodology

ISS ESG evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Green Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Green Bond KPIs.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by Stedin (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which Stedin's Green Bond contributes to related SDGs and has a positive association with their respective sub-targets.

The contribution assessment is split into two Levels:

1. **Level 1:** Contribution and/or obstruction of the Use of Proceeds categories to be financed through the bond to the UN SDGs
2. **Level 2:** Association of the assets' ESG performance with further SDGs

About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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