

# Debt Investor Presentation

Acquisition additional stake in 50Hertz

May 2018

# Agenda

## 1. Elia Group:

- Business Profile
- Earnings model
- Robust regulated financials

## 2. Acquisition of additional 20% stake in 50Hertz

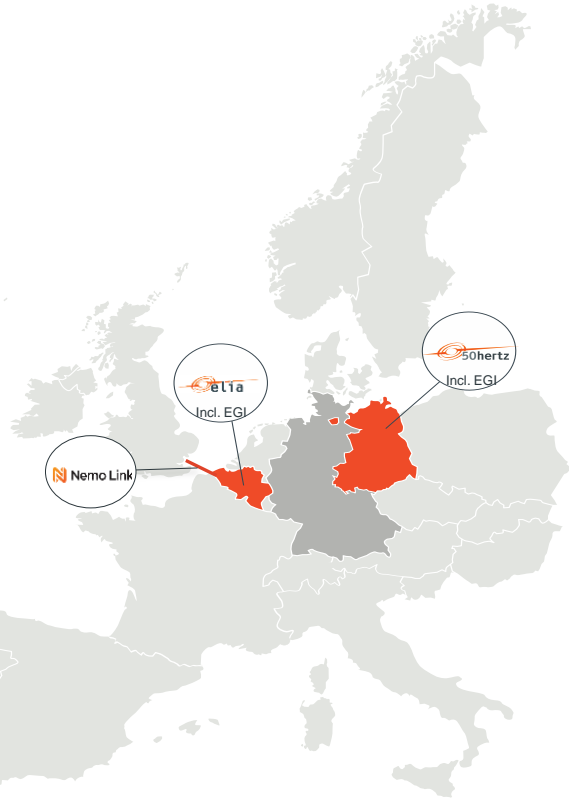


# Elia Group Business Profile

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# Elia Group: A strong, reliable and sustainable partner

The Elia Group encompasses two leading TSOs in Europe, with **Elia in Belgium**, **50 Hertz in Germany**



## OPERATIONAL

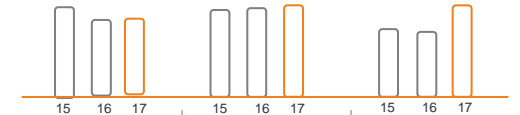


**30,000,000**  
END USERS

**18,600 km**  
HIGH VOLTAGE LINES

**143,000 km<sup>2</sup>**  
COVERED

## FINANCIAL (2017)



**€947 m**  
INVESTMENTS

**€1.62**  
GROSS DIVIDEND

**€216.6m**  
NORMALIZED NET PROFIT

## ENVIRONMENTAL



**1,749.6 kg**  
IT MATERIAL WHO GOT A SECOND LIFE

**34,000**  
TREES PLANTED THANKS TO THE LIFE PROJECT

**53.4%**  
RENEWABLES ENERGY (50Hertz)

## SOCIAL



**2,343**  
EMPLOYEES

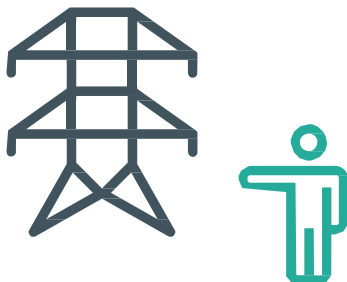
**24**  
NATIONALITIES

**222**  
NEW HIRES

# Key Activities

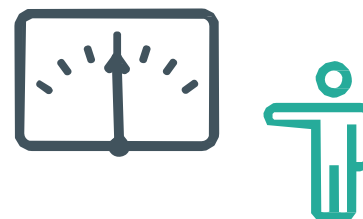
## Elia Group

Security of supply



### 1 Infrastructure management

Operation, maintenance, planning and expansion of the on- and offshore high voltage infrastructure.



### 2 Controlling the system

Secure operation and balancing of the whole electricity system, 24/7.



### 3 Developing the EU market

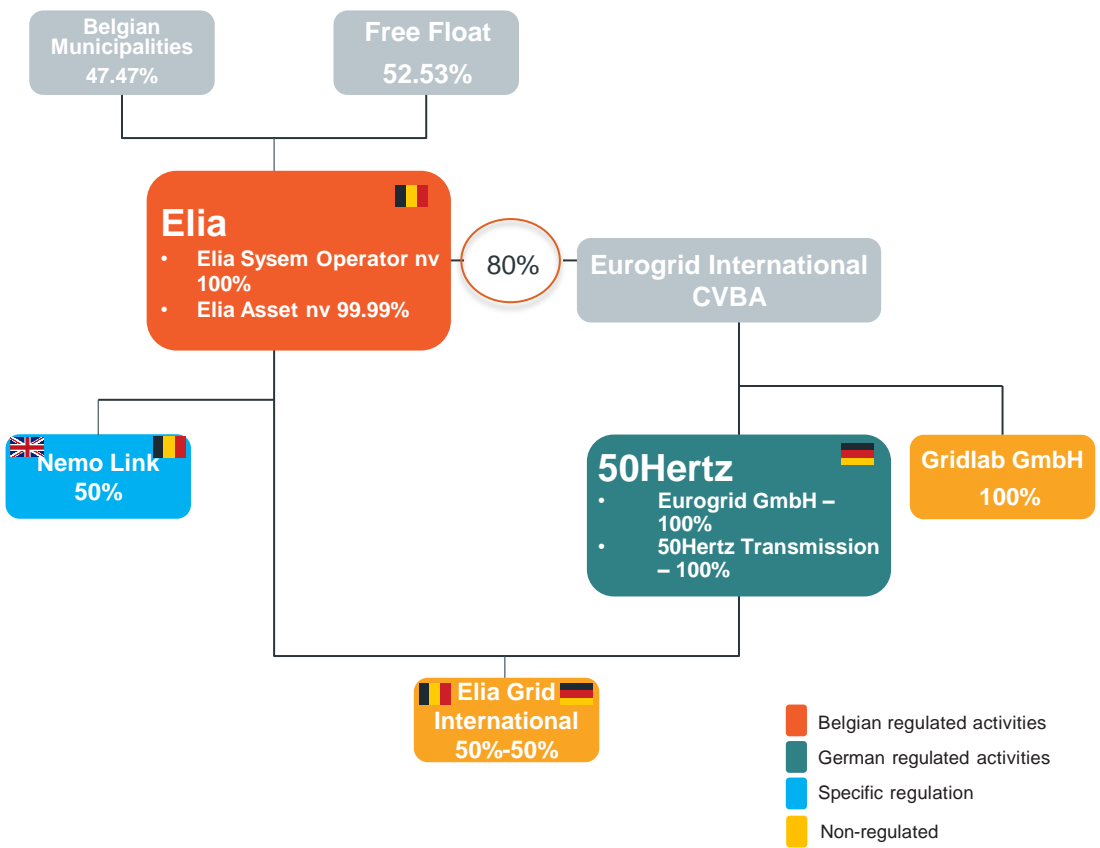
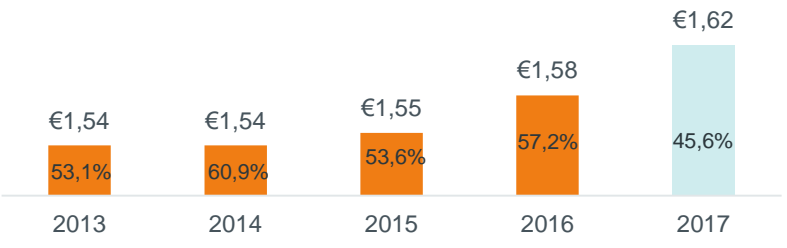
Front runner in the development of the EU electricity market (NWE & CEE regions) to make the EU energy system more competitive, secure and sustainable.

# Stable shareholder base & diversified Group structure

## Shareholder structure

Publi-T	44.96%
Publipart	2.51%
Katoen Natie	6.95%
Interfin	4.27%
Federale Participatie- en Investeringsmaatschappij	1.86%
Others	39.45%

## Dividend & pay-out



# Experienced Management



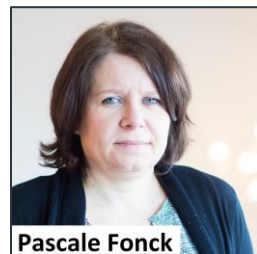
Elia group's **CEO Chris Peeters** started at Elia in July 2015. Based on his large experience in the energy sector, he redefined the Group's strategic activities to cope with the challenges of the energy transition. Before joining Elia, he ran the business consulting activities of Schlumberger in Europe, Russia, Africa and the Middle East. Prior to that, he was 14 years with McKinsey & Company (of which seven years as Partner), specializing in the energy sector.



**CFO Catherine Vandendorre** has been working at Elia for the last 15 years, being, among others CEO of the affiliate Belpex, Chief Corporate Affairs Officer and CFO as from September 2013. Catherine is member of the Boards and chairwoman of the audit committees of Eurogrid International and Contassur. She is also independent member of the Board of Proximus.



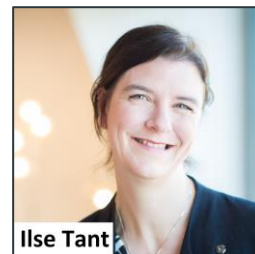
**Markus Berger**  
Chief Infra-structure Officer



**Pascale Fonck**  
Chief External Relations Officer



**Patrick De Leener**  
Chief Customers, Markets and System Officer



**Ilse Tant**  
Chief Public Acceptance Officer



**Frédéric Dunon**  
Chief Assets Officer



**Peter Michiels**  
Chief HR & Internal Communication Officer



Earnings model  
Mature regulated environment with  
predictable and secured cashflows

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# One Elia Group, two regulated remuneration schemes

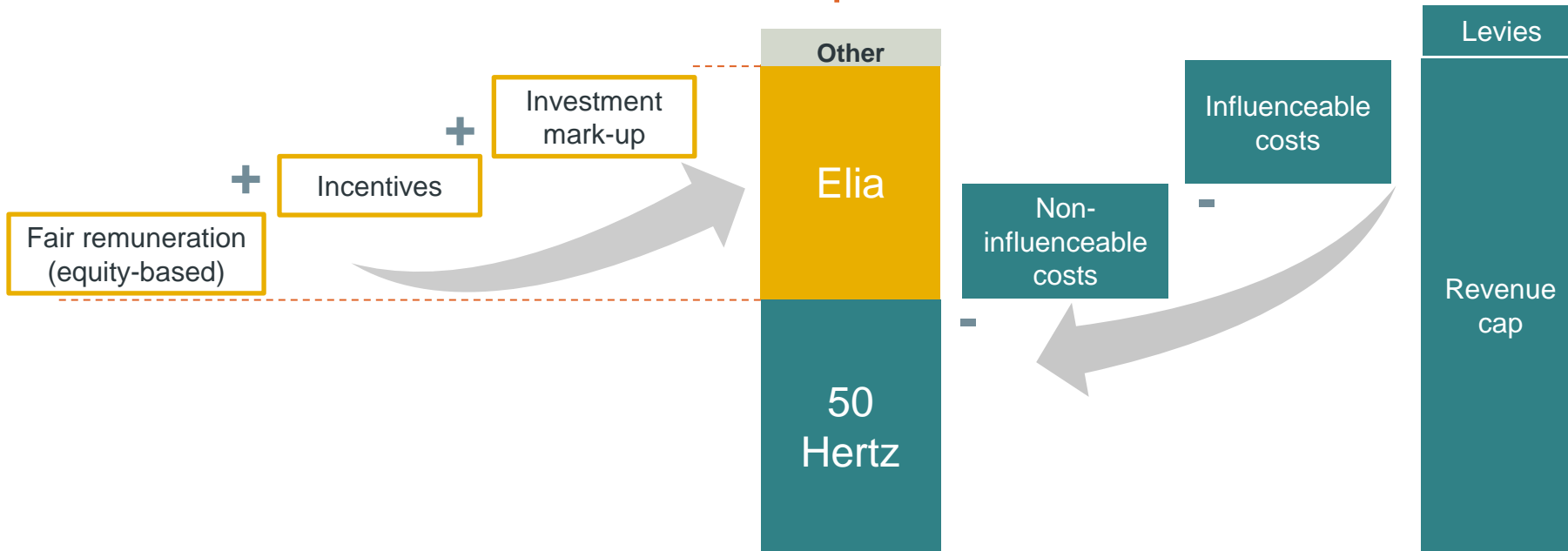


A cost + model  
in Belgium



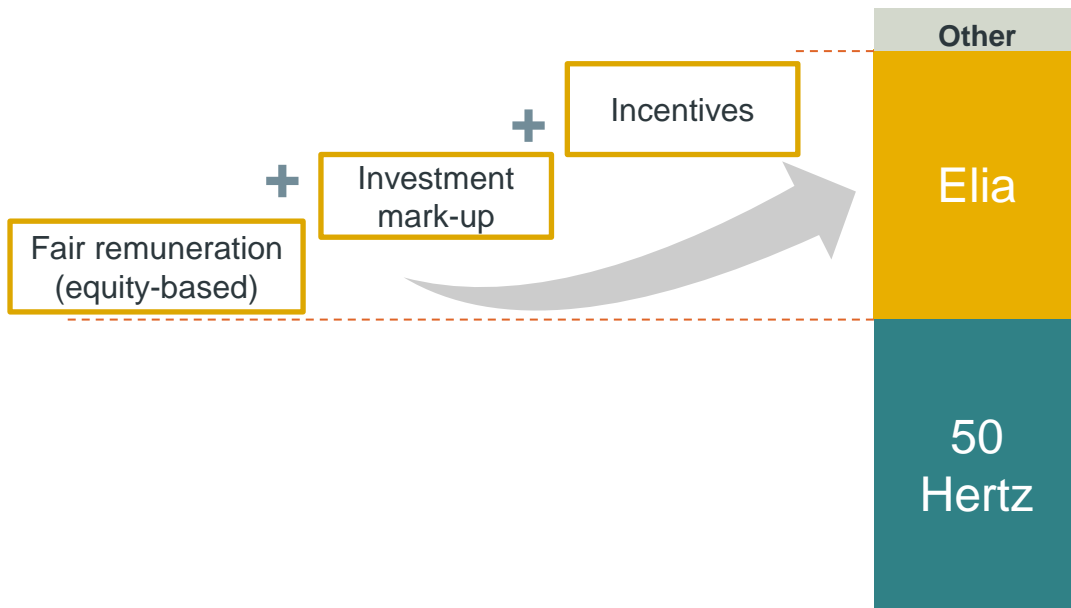
A revenue-cap model  
in Germany

## Elia Group's net profit



# The Belgian model

## Elia Group's net profit



Powering a world in progress

The regulatory framework (2016-19) is a **cost plus** mechanism : the costs incurred by the company and approved by the regulator are passed through consumers tariffs (**embedded debt principle for financial charges**)

Those costs include the shareholders **remuneration based on fair return on equity**, additional remuneration for investments contributing to security of supply and integration of energy markets (**Mark-up**), and operational **incentives**

→ **No volume and credit risk**

# Belgium: Regulation promotes investment CAPEX

## FAIR REMUNERATION

Equity remuneration:

Equity < 33%

$[OLO \text{ avg } 10y + (RP \times \beta)] \times IP$

- $RP = 3.5\%$
- $\beta = 3\text{year}$  with floor 0.53
- $IP(\text{illiquidity premium}) = 1.1$

→  $OLO_{avg10y} + \text{min } 204 \text{ bp}$

Equity > 33%

$OLO_{avg} 10y + 70\text{bps}$

## INCENTIVES

Mostly positive incentives on

- Market integration
- Investment management
- R&D
- Network availability
- System adequacy

50/50 sharing efficiencies /  
extra spending on controllable  
costs

## MARK UP STRATEGIC INVESTMENTS

For all investments which entail  
EU integration

Additional return on invested  
CAPEX

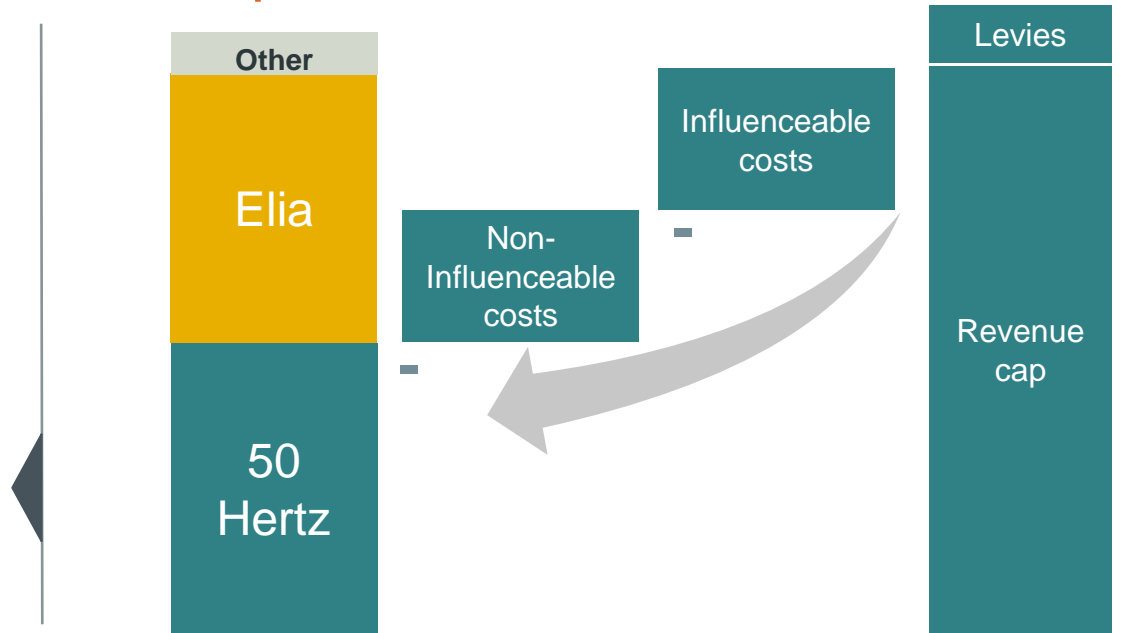
# The German model



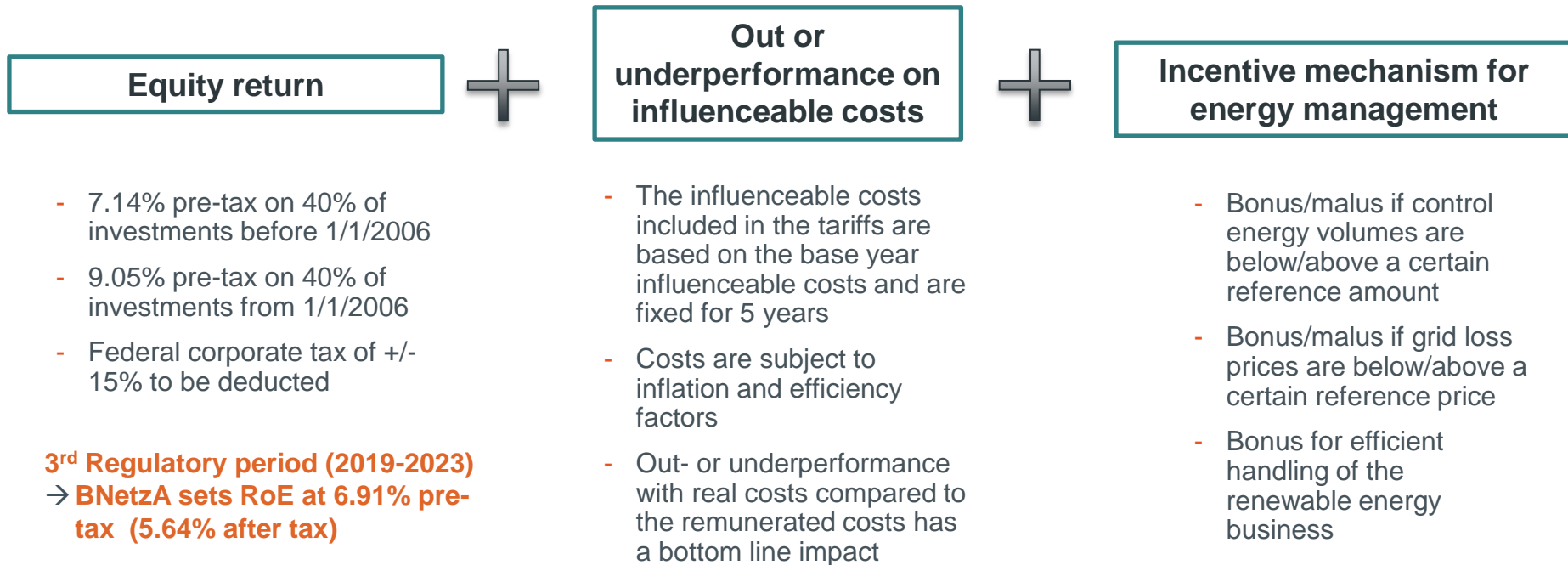
The German regulation (2014-2018) is based on a **revenue cap**:

- Yearly non-influenceable costs covering energy costs and costs for new investments are passed through to consumers
- 5-year influenceable costs, including a fixed ROE on 40% of the Regulated Asset Base

## Elia Group's net profit



# Germany: Regulation promotes investment CAPEX



# Other - Expanding Elia Group's role & responsibilities

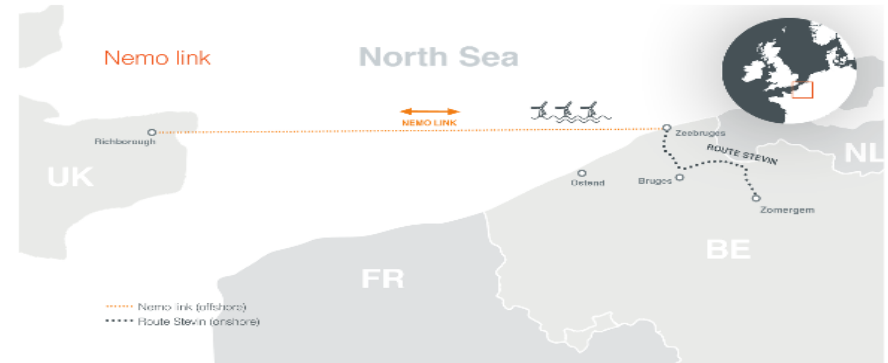
## GRID Consulting

### Elia Grid International (Non-regulated)

Elia Grid International (EGI) embodies the international ambitions of the Elia Group. By offering consultancy and engineering services on the international energy market, EGI develops power system projects for third parties.

## International Projects

### NEMO Project (Regulated)



**NEMO to generate operational profit  
from early next year**



Elia Group  
Robust regulated financials

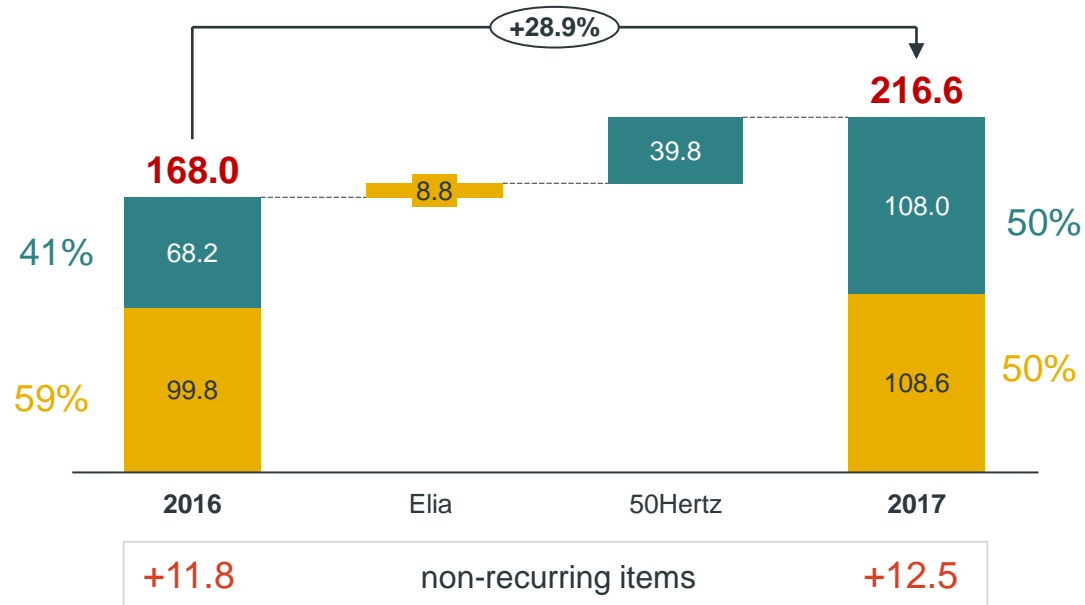
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# Elia Group results FY 2017

## KEY FIGURES

Investments	Revenue	Reported Net profit
€ 947 million <sup>1</sup> (19.6%) yoy	€ 887.5 million +2.2% yoy	€ 229.1 million +27.4% yoy
Dividend	Normalised <sup>2</sup> RoE	Normalised <sup>2</sup> Net profit
€1.62 45.6% payout	8.2% +150bps yoy	€ 216.6 million +28.9% yoy

## NORMALISED NET PROFIT EVOLUTION (m€)



**Result almost entirely attributable to regulated business**  
**Strong performance in both Belgium and Germany**

<sup>1</sup> Includes 100% of the investments realized by 50Hertz

<sup>2</sup> The term "normalised" refers to performance measures before non-recurring items. Non-recurring items are either income or expenses which do not occur regularly as part of the normal activities of the company.

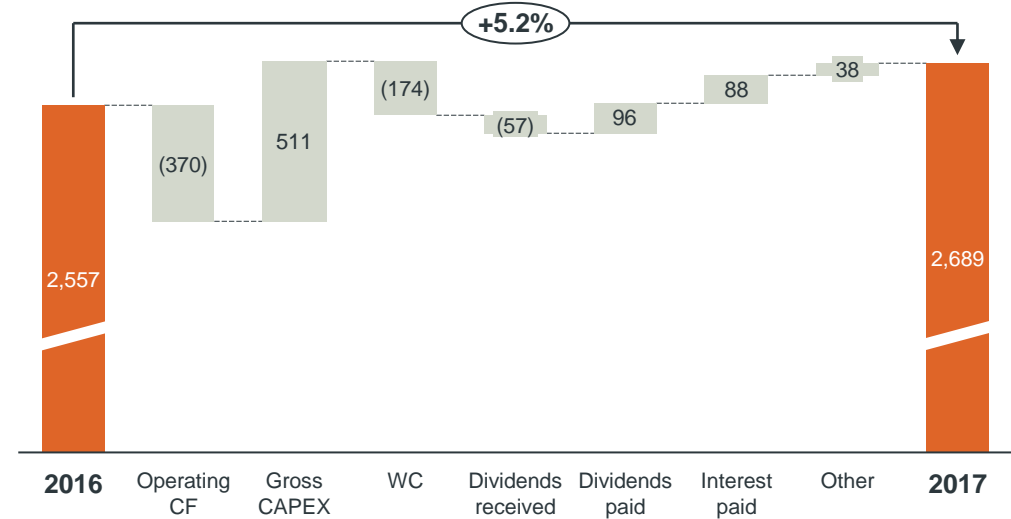


# 2017 Elia Group: Net debt evolution

## KEY FIGURES

<p>Net debt</p> <p><b>€2.689 million</b></p> <p>+5,2% yoy</p>	<p>Av. Cost of debt</p> <p><b>2.92%</b></p> <p>(14 bps)</p>
<p>Fixed debt ratio</p> <p><b>82.5%</b></p> <p>(calculated on gross debt)</p>	<p>Leverage ratio</p> <p><b>0.52x</b></p> <p>debt / (debt + equity)</p>

## NET DEBT EVOLUTION (m€)

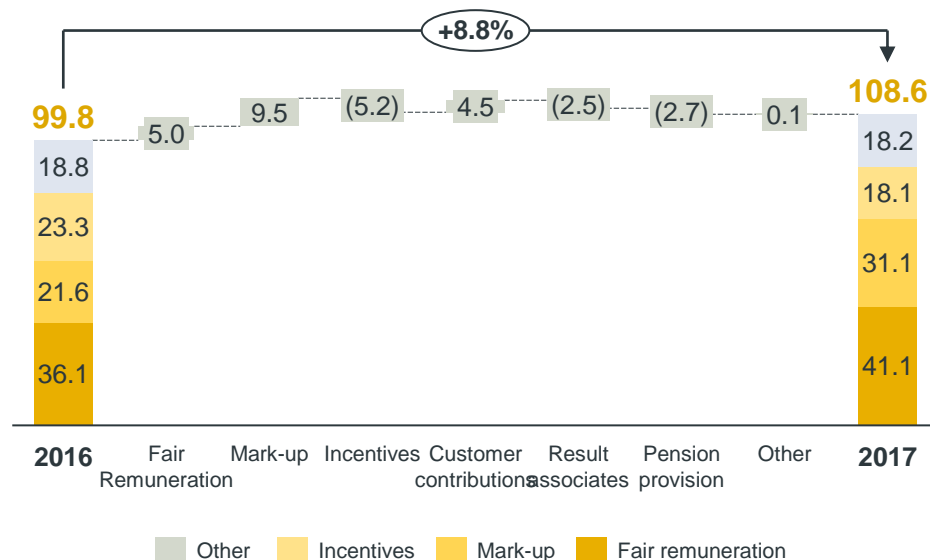


# Elia: Realisation investments driving results

## KEY FIGURES

<p>Revenue</p> <p>€ 887.5 million</p> <p>+2.2% yoy</p>	<p>Reported Net profit</p> <p>€ 121.0 million</p> <p>+15.8% yoy</p>
<p>Normalised Net profit</p> <p>€ 108.6 million</p> <p>+8.8 yoy</p>	<p>Normalised ROE</p> <p>5.2%</p> <p>+20bps</p>

## NORMALISED NET PROFIT EVOLUTION (m€)

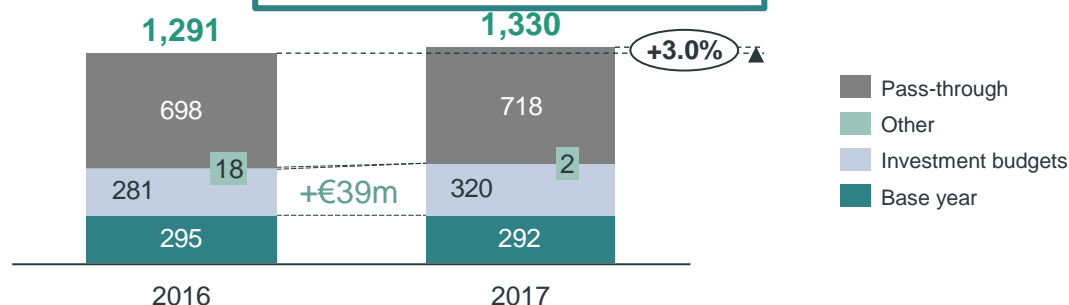


# 50Hertz: Strong operational performance driving result

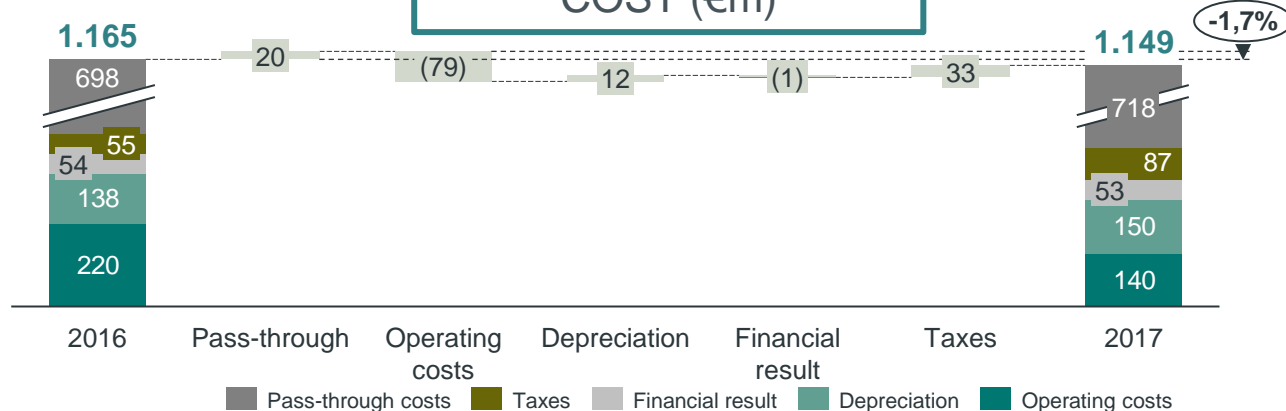
## KEY FIGURES

Revenue	Reported Net profit
€ 1,330.2 million	€ 180.2 million
+3.0% yoy	+43.5% yoy
Normalised Net profit	Normalised ROE
€ 180.1 million	13.0%
+58.3 yoy	+420bps

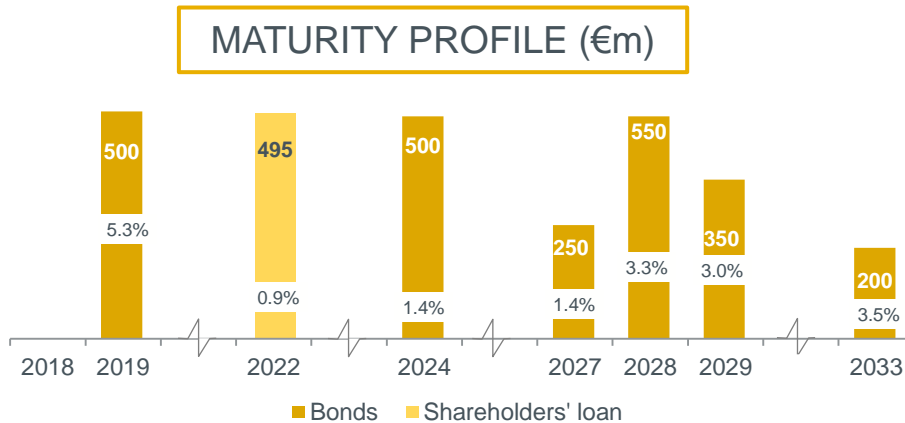
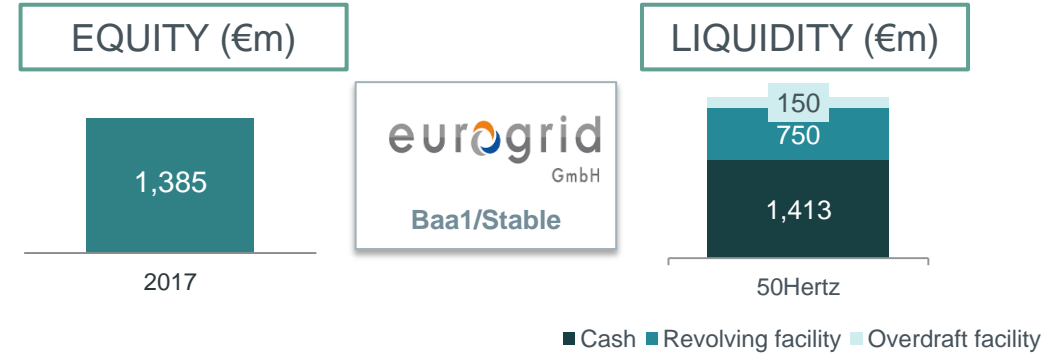
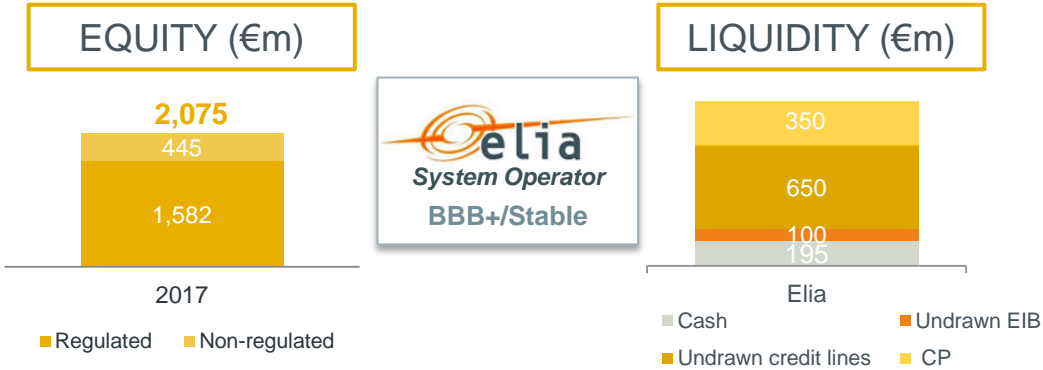
## REVENUES (€m)



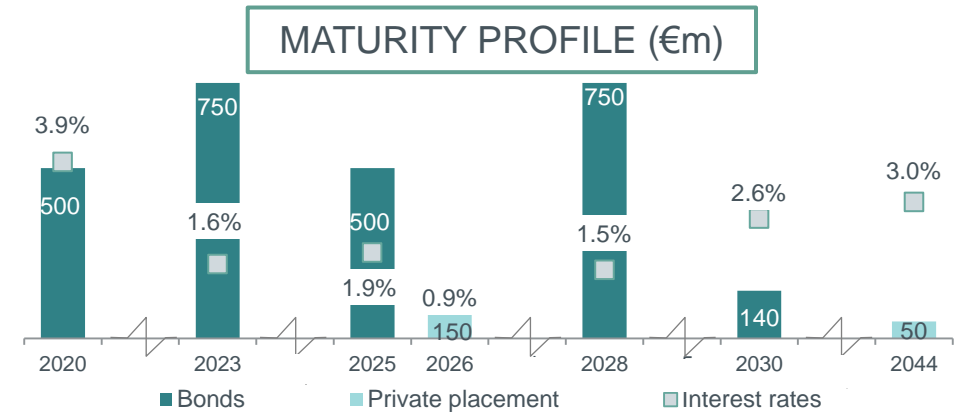
## COST (€m)



# Balance sheet with a manageable debt maturity profile

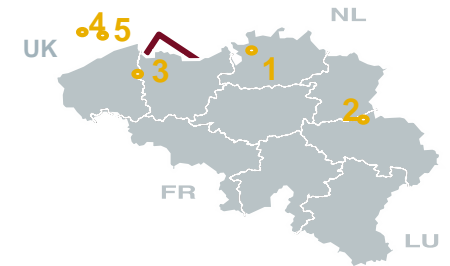


Average debt duration : 7.2Y

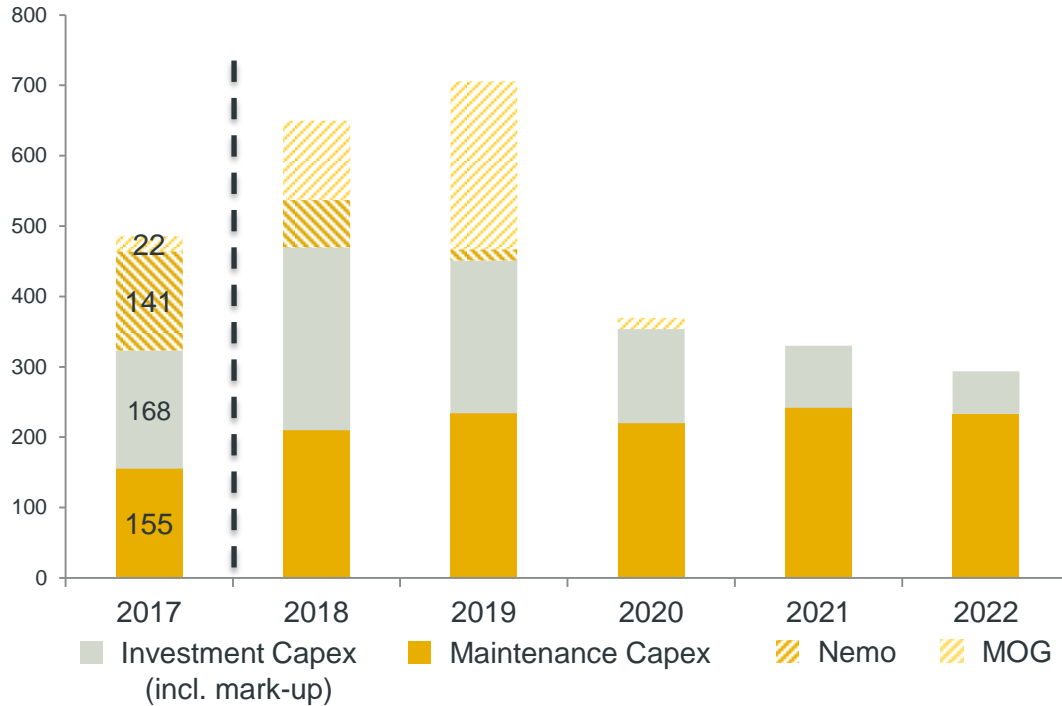


Average debt duration : 7.3Y

# Elia's investment programme for the next 5 years



← CAPEX plan of €2.3 billion →



## Selected investment projects



**1. Brabo**  
Reinforce the Port of Antwerp & increase cross-border capacity with NL



**2. ALEGrO**  
Increase cross-border capacity with Germany with the first HVDC on land



**3. Mercator -Horta**  
Strengthening the backbone to allow a higher integration of renewables from offshore



**4. Nemo Link**  
Subsea HVDC-interconnection with UK



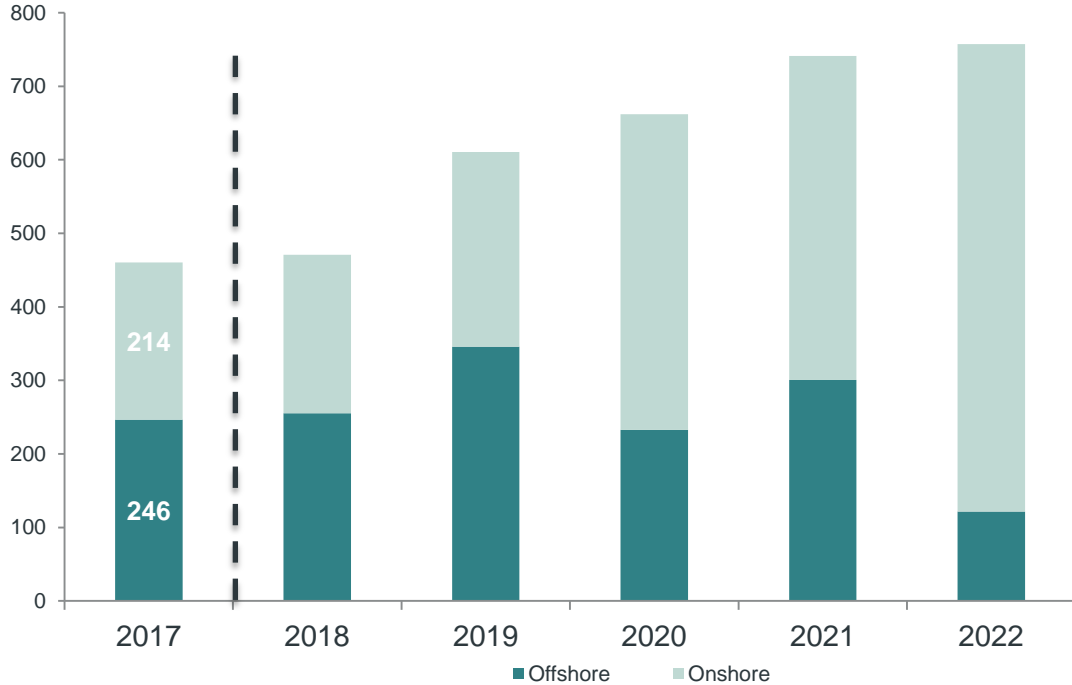
**5. Modular Offshore Grid**  
Connection of wind farms in North Sea with the onshore grid

**Investment plan driven by the need for interconnection and integration of renewables.**

# 50Hertz German grid expansion plan 2018-2022



CAPEX plan of €3.3 billion



## Selected investment projects



1. HVDC connector line  
Line linking Saxony-Anhalt and Bavaria



2. Berlin Cable  
Reinforcement 380-kV-Cable Berlin



3. Kriegers Flak  
Combined offshore grid solutions with DK and potentially SWE



4. Ostwind 1  
Cluster Westlich Adlergrund / Offshore connection in the Eastern German Baltic shore



5. Ostwind 2  
2nd Cluster Westlich Adlergrund / Offshore connection in the Eastern German Baltic shore

**Increasing investment program driven by both offshore and onshore**

Nb: Elia Group owns 80% of 50 Hertz. These numbers represent 100% of 50 Hertz



**Elia to acquire an  
additional 20% stake in  
Eurogrid**

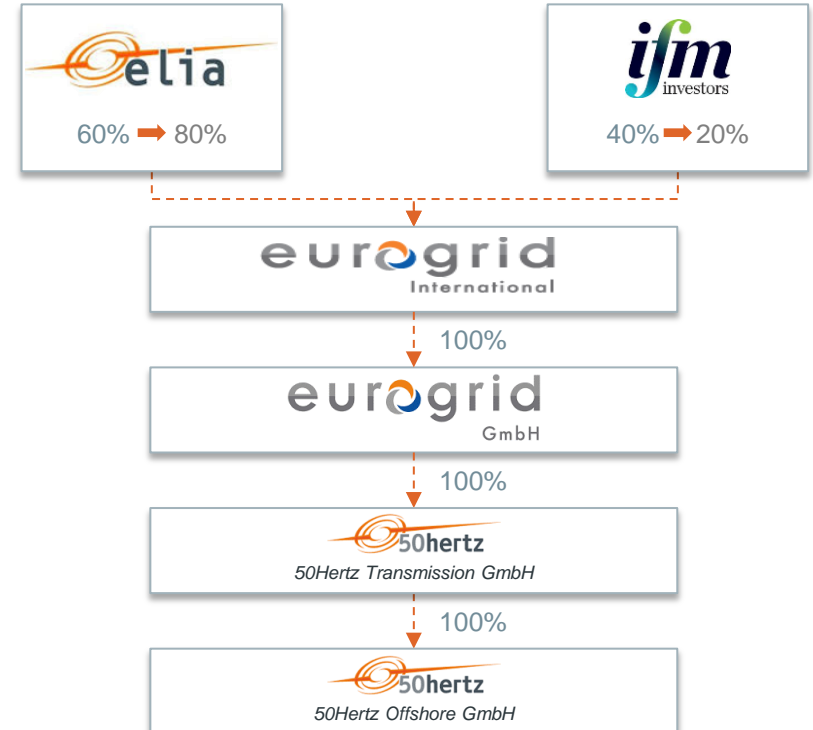
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# Transaction Overview

## Key deal terms

<b>Acquisition</b>	<ul style="list-style-type: none"> <li>Acquisition of additional 20% stake in Eurogrid through exercise of pre-emption right</li> <li>Ownership of 80% since 26 April 2018</li> <li>Initial 60% was acquired in 2010</li> </ul>
<b>Price</b>	<ul style="list-style-type: none"> <li>Total consideration of €988.6 million (€976.5 million + €12.1 million interest)</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>From joint control to full control</li> <li>No blocking minority going forward</li> </ul>
<b>Financing</b>	<ul style="list-style-type: none"> <li>Bridge financing has been secured until take-out funding</li> <li>Take-out funding based on €700 million hybrid and €300 million senior debt</li> <li>Designed to maintain a BBB+ rating</li> </ul>

## Shareholder Structure

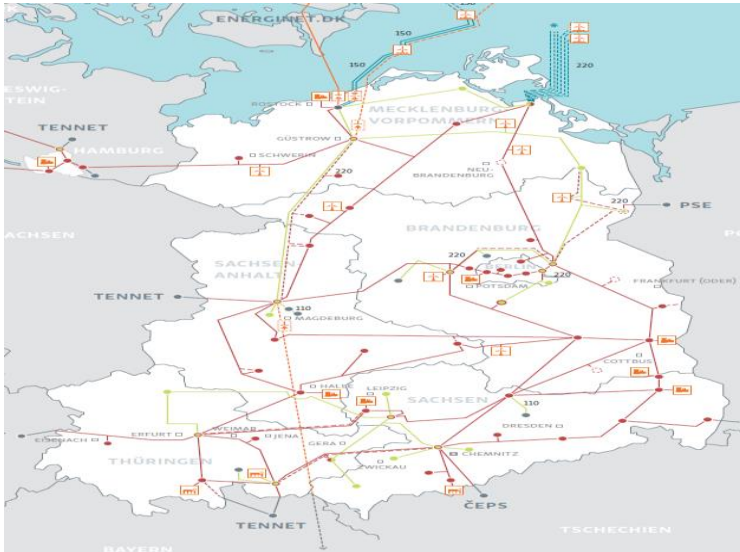




# 50Hertz a growth story

## Overview

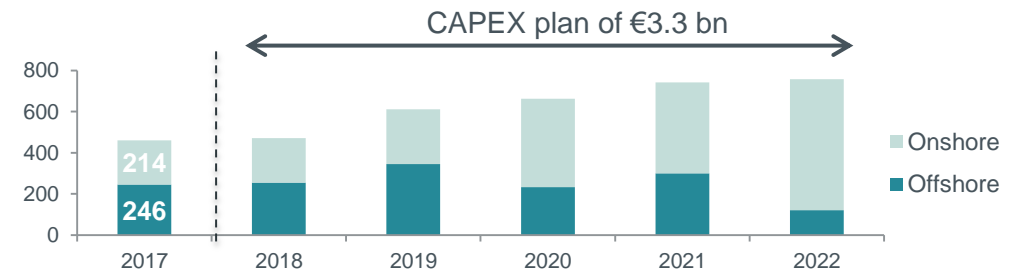
- Owning, maintaining and operating the 380 and 220kV trans. grid in North East Germany, serving 19 million people and companies representing c.20% of Germany GDP
- Grid length of 10,200 km
- With 40 TWh 50Hertz area is biggest exporter in Germany and Europe



Description	2010 (*) (share Germany)	2017 (share Germany)
<b>Key financial details</b>		
Revenue & other income	€475m	€1,330m
EBITDA	€124m	€472m
Net income	€45m	€180m

## Key technical details (\*)

Grid area	109,619 km <sup>2</sup> (~31%)	109,619 km <sup>2</sup> (~31%)
Length of lines	9,800 km (~30 %)	10,200 km (~30 %)
Max. load	~ 17 GW (~20 %)	~ 16 GW (~20 %)
Power consumption	~ 98 TWh (~20 %)	~ 96 TWh (~20 %)
RES share in power consumption	~ 25 %	53.4 %



(\*) Unaudited pro-forma consolidated financials 12 months 2010 (60% proportional consolidation)

(\*\*) Source: 50Hertz

# A unique opportunity for Elia Group

## A strategic asset with further growth potential

- Acquisition fits Elia's strategy
- Strengthens Elia's position in Europe through granting control of a 2nd major network
- Asset with long term organic growth opportunities driven by the Energiewende and supported by 2030 renewable energy production targets

## Limited and measured risk

- Well known asset with an experienced, strongly committed and loyal management team and work force
- Developed and stable regulatory framework supporting the investment programme (revenue cap model)
- Strong balance sheet with the additional dividend covering the finance cost of the increased stake

## Value enhancer for Elia Group

- Premium benefits to full investment in 50Hertz:
  - Ability to achieve upsides identified: potential to fully rollout and define the business plan
  - Ability to leverage synergies in (inter alia) IT and corporate function harmonization
- Accretive from earnings and cash perspective
- Increased exposure to a highly stable and well regarded regulatory framework with higher RoE compared to Belgium

# Take out considerations



€1,000m take-out financing

## Senior debt (€300m)

- ✓ **Security rating (S&P):** BBB+
- ✓ **Maturity:** 10-12 years
- ✓ **Format:** Senior unsecured and unsubordinated
- ✓ **Accounting treatment:**
  - BEGAAP: 100% debt
  - IFRS: 100% debt
  - S&P: 100% debt

300

## Hybrid debt (€700m)

- ✓ **Security rating (S&P):** BBB-
- ✓ **Maturity:** Perpetual NC [5.25y]
- ✓ **Format:** Fixed rate reset undated subordinated securities
- ✓ **Accounting treatment:**
  - BEGAAP: 100% debt
  - IFRS: 100% equity
  - S&P: 50% equity / 50% debt

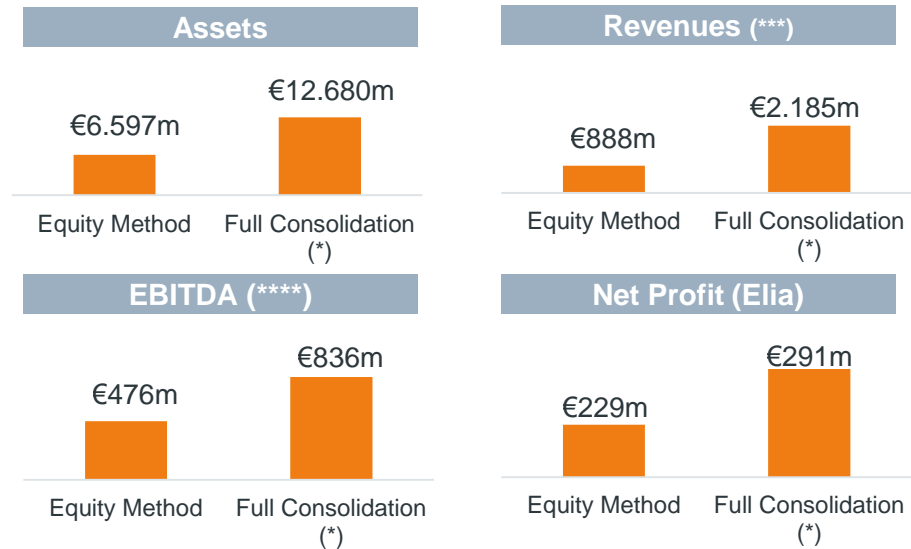
700

Funding structure designed to maintain solid credit metrics and BBB+/Stable outlook rating (see term sheets in appendix)

# Impact on Elia Group financials

## Full Consolidation

- Full control resulting in change from equity pick-up to full consolidation
- Goodwill of €0.7bn (\*\*)



(\*) Unaudited pro-forma financial statements YE 2017  
 (\*\*) Based on initial purchase price accounting

(\*\*\*) Includes revenue and other income  
 (\*\*\*\*) EBIT plus depreciation, amortization and impairments

## Impact of the transaction

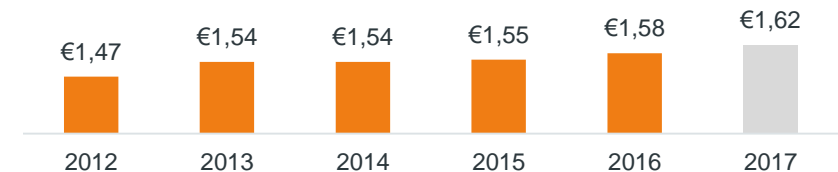
1 Earnings and cash accretive as from acquisition

2 No credit rating impact of transaction

STANDARD  
& POOR'S

Remain: BBB+/Stable/A-2

3 Current dividend practice expected to be sustained



Dividend for 2017 confirmed at AGM of 15 May 2018

# Elia's key credit highlights

## Predictable regulated earnings

- **Low risk business** and **predictable cashflow**, underpinned by the solid and transparent regulatory framework in both Belgium and Germany
- Over **99%** of Elia's revenues are generated from its regulated activities

## Growth possibilities

- Licensed to **build the electrical system of the future**, well positioned in **centre of Europe**
- **Energy transition** is driving the CAPEX: new German government increased the target for renewable energy production in 2030 from 55% to 65%

## Proven track record

- **Proven track** record in terms of operational and financial excellence
- **Sound liquidity** with **manageable debt** redemptions

## Stable shareholder base

- Elia has a **strong and diversified shareholder** base aligned with company's objectives
- **Experienced** Management Team

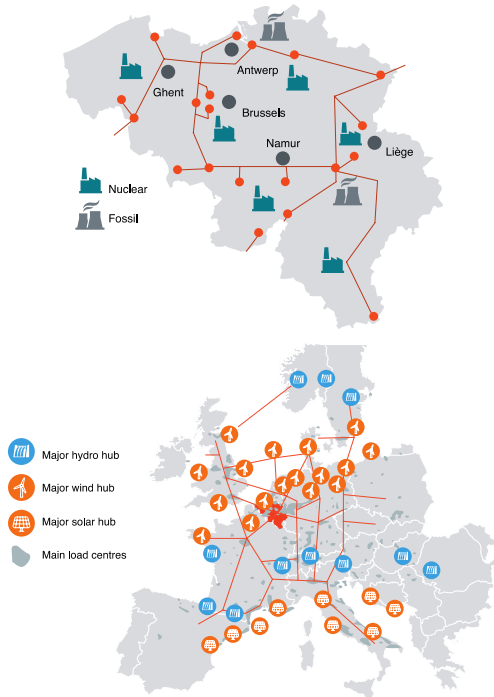
A photograph of an offshore wind farm at sunset. The sun is low on the horizon, casting a warm glow over the sea and the silhouettes of the wind turbines. The turbines are arranged in a line, receding into the distance. The water is calm with gentle ripples.

# Elia Group Appendices

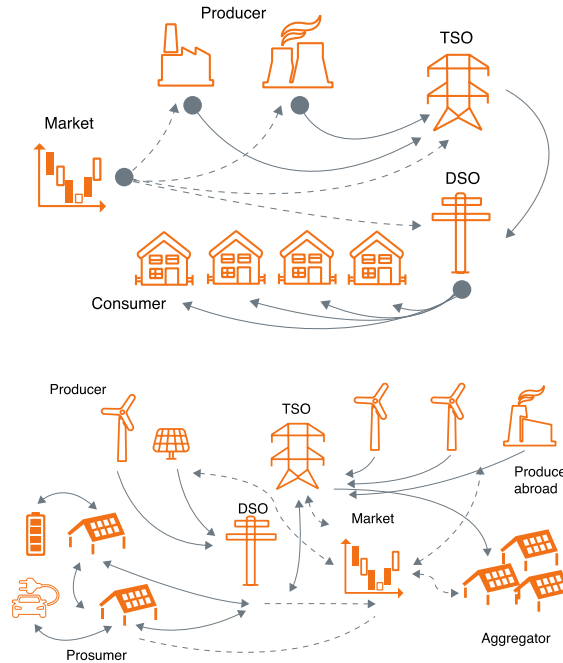
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# The energy transition is happening

## Breakthrough of renewables on a European scale



## New players and active consumers empowered by digitalisation



## Integration of European electricity markets



# We lead the way in the Energy Revolution

## Our mission



Delivering the grid of the future



Acting in the interest of the society



Enabling a reliable & sustainable power system

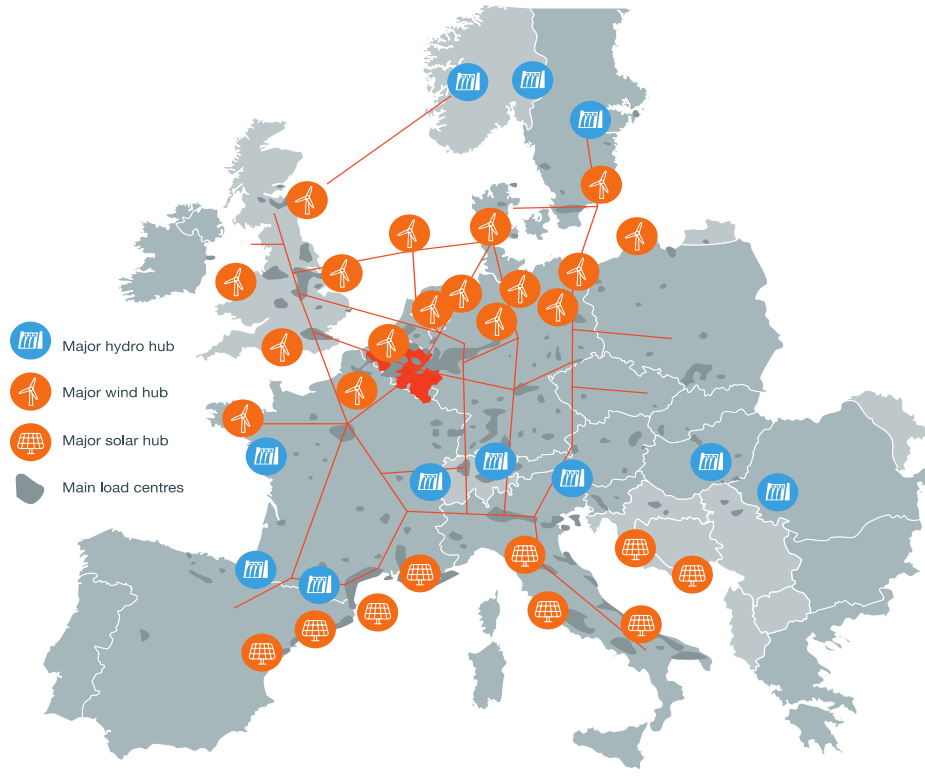
## Our values

**Our values**

- ↗ Agile
- ↗ Collaborative
- ↗ Entrepreneurial
- ↗ Accountable



# We are a leading group of TSOs, strategically placed to realise the energy transition in Europe...

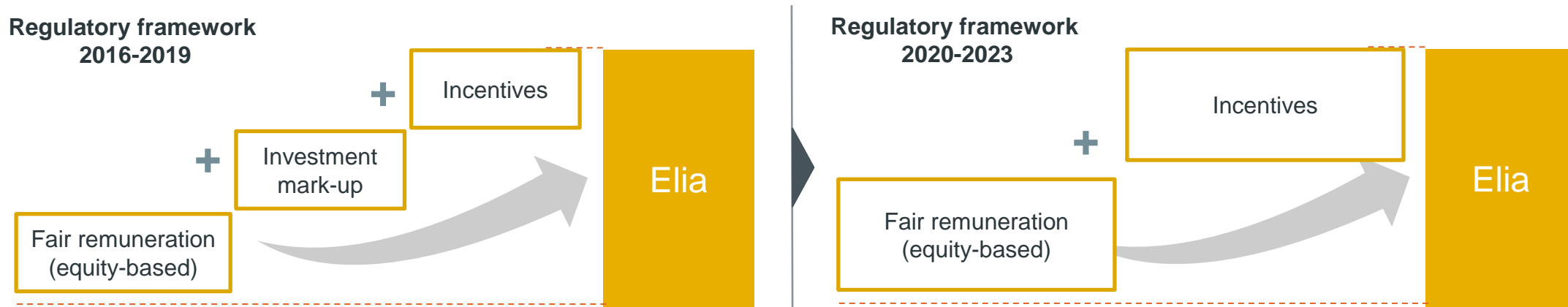


The energy transition requires investments in infrastructure and technology development for state of the art system operations and market facilitation

Elia's Strategy:

- 1 Ensure a secure, reliable and efficient grid
- 2 Deliver the transmission infrastructure for the future
- 3 Evolve the system and markets
- 4 Cooperate to strengthen our TSO position
- 5 Align culture with strategy
- 6 Eyes wide open on innovation and M&A

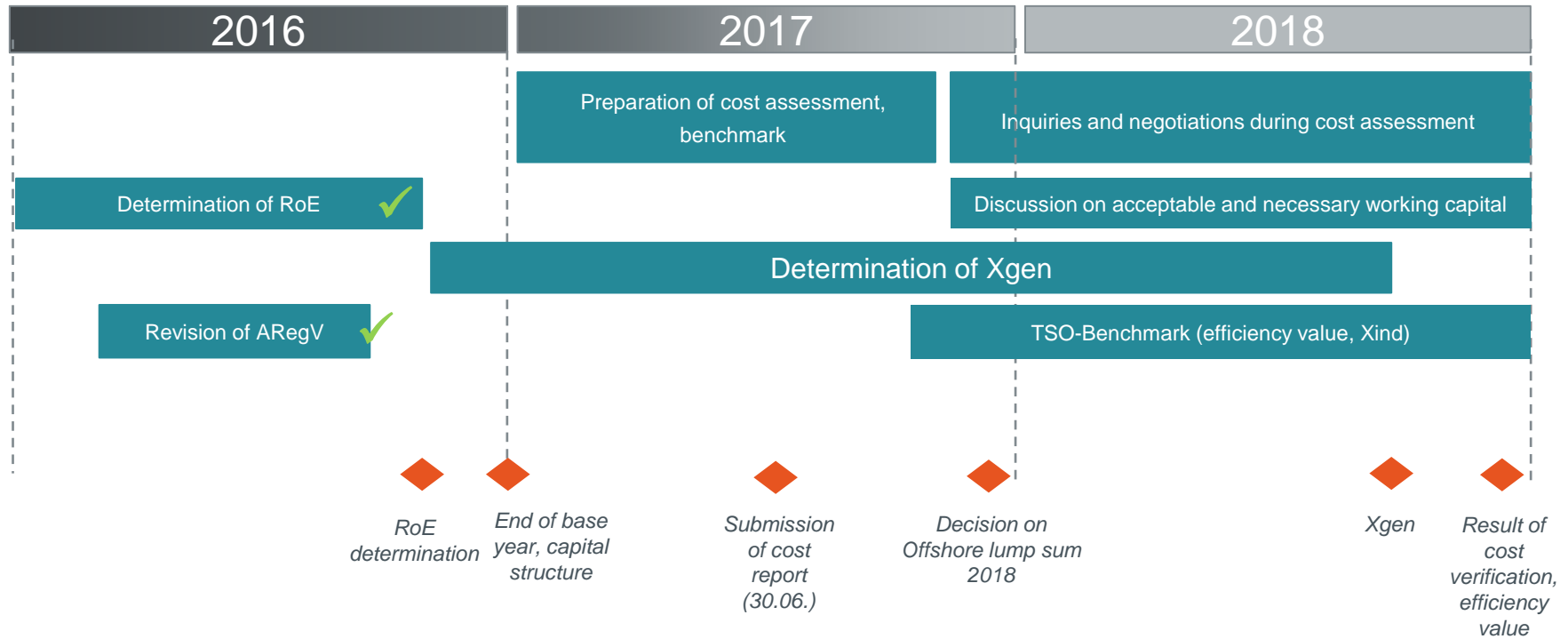
# The Belgian model – Regulatory framework 2020-2023 (indicative \*)



- Belgian regulatory framework remains **a cost-plus model**
- **Embedded debt principle** for financial charges remains
- Investment mark-up substituted by **fair remuneration** and **incentives**
- Regulatory **gearing** changed from 33% to **40%**

(\*) New tariff methodology currently under public consultation

# German process of revision regulated framework until 2019



# Selected unaudited pro-forma Consolidated Financials

## As at 31 December 2017

mEUR	Elia Belgium	Eurogrid	Adjustments	Pro-forma
Operating Income (*)	887.5	1,330.3	(32.7)	2.185.1
Operating Results	235.9	321.7	(3.5)	554.1
EBIT	344.6	321.7	(111.6)	554.7
Financial results	(76.4)	(54.4)	26.2	(104.6)
Profit before income tax	268.2	267.3	(85.5)	450.0
Net profit of the year (Elia)	229.1	180.2	(118.6)	290.7
Non-controlling interest			36.0	36.0

mEUR	Elia Belgium	Eurogrid	Adjustments	Pro-forma
Non-current Assets	6,093.3	4,580.4	(87.3)	10,586.4
Current Assets	503.2	1,615.6	(24.6)	2,094.2
Total Assets	6,596.5	6,196.0	(111.9)	12,680.6
Total Equity	2,641.8	1,385.4	(396.0)	3,631.2
Non-current Liabilities	2,984.5	3,096.6	299.1	6,380.2
Current Liabilities	970.2	1,714.0	(15.0)	2,669.2

Note: see prospectus for full set of unaudited pro-forma consolidated financials  
 (\*\*) Includes revenue and other income

# Transaction Overview - Senior Issuance

Issuer	Elia System Operator SA/NV
Rating	BBB+, Stable Outlook with S&P
Format	Senior Unsecured and Unsubordinated
Size & Maturity	€300m (10 or 12-year)
Coupon	Fixed
Denominations	EUR 100,000 + EUR 100,000
Documentation	Stand Alone Prospectus
Listing / Governing Law	Euronext Brussels / English Law (other than certain conditions 1,11 and 13 with respect to rules laid down in the Belgian Company Code)
Use of Proceeds	Proceeds will be used to finance the acquisition of an additional 20% stake in Eurogrid
Target Market	Manufacturer target market (MIFID II product governance) is eligible counterparties and professional clients only (all distribution channels). No PRIIPs key information document (KID) has been prepared
Global-Coordinators	BofA Merrill Lynch / BNP Paribas
Joint Bookrunners	BofA Merrill Lynch / BNP Paribas / ING / NatWest Markets

Note: see prospectus for the terms of the Notes

# Transaction Overview - Hybrid Issuance

Issuer	Elia System Operator SA/NV
Securities	Fixed Rate Reset Undated Subordinated Securities
Issuer Rating / Securities' Expected Rating	BBB+, Stable Outlook with S&P / [BBB-]
Expected Equity Credit	S&P Intermediate (50%)
Size & Maturity	€[700]m Perpetual NC[5.25]
Interest Payment Dates	Payable annually in arrear on [*] [September] in each year. There will be a long first Interest Period and the first Interest Payment Date will be [*] [September] 201[9]
Interest Rate	The Securities bear interest on their principal amount at : 1. from and including the Issue Date, to but excluding [*] [September] 202[3] (the "First Reset Date"), [*]% per annum; 2. from and including the First Reset Date, to but excluding [*] [September] 202[8], the sum of the 5 year EUR Mid-Swap Rate plus initial margin per annum; 3. from and including [*] [September] 202[8], to but excluding [*] [September] 204[3], the sum of the 5 year EUR Mid-Swap Rate plus initial margin+25 bps per annum; 4. from and including [*] [September] 204[3], the sum of the 5 year EUR Mid-Swap Rate plus initial margin+100 bps per annum
Optional Interest Deferral	The Issuer may, at any time and at its sole discretion, elect to defer any Interest Payment. Any Interest Payment so deferred shall constitute "Arrears of Interest". Arrears of Interest will bear interest.
Settlement of Arrears of Interest	Arrears of Interest may be paid at any time at the option of the Issuer but shall become due and payable on the earliest of (subject to certain exceptions): 1. The tenth business day following the date on which the Issuer declares or pays a dividend or other such distribution on, or redeems, repurchases or otherwise acquires any Junior Securities or Parity Securities; 2. The next Interest Payment Date on which the Issuer elects not to defer the interest; 3. The date of the redemption of the Securities; or 4. The date of the winding-up of the Issuer.
Issuer's Call Option	Any date falling from the [*][June] 202[●] (the "First Call Date") to, and including, the First Reset Date (90 days period) or on any Interest Payment Date thereafter at their principal amount together with accrued but unpaid interest thereon and any outstanding Arrears of Interest
Special Redemption Events	Upon an Accounting Event, Rating Agency Methodology Event or a Tax Deductibility Event at 101% (if redeemed before the First Call Date) or at par (if redeemed on or after the First Call Date). Upon a Gross Up Event or a Substantial Repurchase Event (more than 80%) at par
Substitution and Variation	Yes, as an alternative to an early redemption upon the occurrence of an Accounting Event, Rating Agency Methodology Event, Tax Deductibility Event or a Gross Up Event, subject to certain preconditions
Subordination	The Securities are senior only to ordinary shares. Junior to unsubordinated obligations of the Issuer
Denominations / Documentation	EUR 100,000 + EUR 100,000 / Stand Alone Prospectus
Listing / Governing Law	Euronext Brussels / English Law (other than certain conditions 1,2,13 and 15 with respect to rules laid down in the Belgian Company Code)
Target Market	Manufacturer target market (MIFID II product governance) is eligible counterparties and professional clients only (all distribution channels). No PRIIPs key information document (KID) has been prepared
Global-Coordinators	BofA Merrill Lynch (Structuring Advisor) / BNP Paribas
Joint Bookrunners	BofA Merrill Lynch / BNP Paribas / ING / NatWest Markets

# Definitions

EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
CAPEX	Capital Expenditures
RoE	Return on Equity
Normalised RoE	Normalised net profit / Equity
Net debt	Loans and borrowings minus Cash and cash equivalents
Av. Cost of debt	Finance costs / Loans and borrowings
Fixed debt ratio	Fixed portion of outstanding interest bearing loans
Leverage Ratio	Debt / [ Debt + Equity]
Operating CF	Operating Cash Flow
WC	Working capital
Average debt duration	Weighted average maturity
RES share	Renewable Energy Source
CAGR	Compound Annual Growth Rate

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