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# EDITED TRANSCRIPT

ELI.BR - Full Year 2022 Elia Group SA Earnings Call

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## PRESENTATION

**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

Thank you for joining us. During this live streamed event, we will be presenting Elia Group's annual results 2022. And for this, we are joined by Catherine Vandendorre; and Chris Peeters, the group's CFO and CEO. Welcome to you both.

Today's program is as follows: with Chris Peeters, we will be discussing the most notable successes, the lessons learned and some more recent events; Catherine Vandendorre will then present the year's financial results, and finally, we will present the outlook for this year and our CapEx program for the next 5 years.

Before we start, we would like to share a disclaimer with you as mentioned on the slide which is on the screen now. You must read this disclaimer. The slides and the script will be made available online later today. And I suggest we now continue.

When looking back at 2022, we cannot ignore the war in Ukraine and the effects it had has on the energy markets. Chris, what are your lessons learned from the past year?

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**Chris Peeters** - *Elia Group SA/NV - CEO, Chairman of Executive Management Board & TSO Head*

Well, Marleen, we all have seen with the war in Ukraine and with the energy crisis that there is a benefit for society to accelerate the energy transition. Before we were doing this energy transition mainly to get rid of fossil fuels and to reduce our dependence at least of that, and now we see there is also an important geopolitical relevance by doing the energy transition. But even more important, it will bring stable prices to Europe. And therefore, it will be beneficial to keep our industry here and to have affordable prices for our citizens. And in that perspective, of course, it is of huge importance and social value, and it will create welfare.

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**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

There's also a growing awareness about the link between the energy transition and energy security.

In May last year, the European Commission published its Repower EU plan to reduce Europe's dependence on Russian fossil fuels. One of the measures it includes is increasing clean power. And only 1 month ago, the commission published its Green Deal Industrial plan. It is understood as the commission's reaction to the U.S. Inflation Reduction Act. Its goal is to put the continent back on the map in terms of investments in renewables, allowing it to compete with the so-called Biden Act.

Chris, the will and the ambition to accelerate the energy transition is clearly there. How does this translate into the daily activities for Elia Group on the ground?

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**Chris Peeters** - *Elia Group SA/NV - CEO, Chairman of Executive Management Board & TSO Head*

Well, Marleen, many things have happened. If you look at Belgium, we see that we move for both the Ventilus and the Boucle du Hainaut project, which are both very important for the engine nutrition. For the Ventilus project, it concretely means that we will start scoping phase and for the Boucle du Hainaut that the revision of the sector plan will now be tackled by the regional government.

On top of that, we see that in Germany, they progressed well with the implementation of the Eastern package. The Eastern package was focused to accelerate the energy transition and we see that they are really now translating this into real laws, and that means that there will be more land for onshore wind. There will also be a new procedure to connect offshore wind farms, that means that they will be connected more easy and more rapidly. They will also simplify the procedures for the grid development, which allows us to have faster permits because, for instance, we will have to do less investigation of alternative tracks that we have to follow.

We can right away if we think that there is a future upside on the grid, we can already provide what they call an empty pipe to extend that grid. And as well, if we do an increase of the power through a certain corridor that is with a reduced procedure, so we can get our permit faster. That means that it's well understood by the German government that this transition will only succeed if we have sufficient transmission infrastructure to bring the green energy to the industry and the citizen and that they fully support this with this legislative package.

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**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

That means also that our strategy that is focusing on the acceleration of the energy transition is even becoming more relevant.

Catherine, if you look back at 2022, what is for you the most important moment?

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**Catherine Vandendorre** - *Elia Group SA/NV - CFO & Member of Executive Management Board*

I would say, Marleen, our successful capital increase in June. That strengthened our balance sheet. We maintained the confidence of our reference shareholder in the market and its challenging times in a difficult stock market. And this gives us confidence for the future. However, I must say that the environment we are working in has become much more complex. Society must carry out major investment in renewable generation, grid infrastructure, industrial electrification and digitalization. This means putting in maximum efforts at the time of rising interest rates and inflation.

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**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

Okay, thank you, Catherine. In a moment, we will revisit some additional highlights from the past year. But Catherine, can you already share some initial key figures with us from the past year?

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**Catherine Vandendorre** - *Elia Group SA/NV - CFO & Member of Executive Management Board*

Sure. In 2022, our CapEx program increased by 25% compared with the previous year. Elia Transmission Belgium and 50Hertz invested around EUR 1.5 billion together. Our investment program included 3 distinct categories. Firstly, the further strengthening of the internal grid backbone in both Belgium and Germany; secondly, the development of offshore infrastructure, which is allowing increasing amounts of renewable energy to be integrated into the system. At the same time, we are coping with increasing electrification of the industrial and consumer side. This complexity can only be managed with digitalization. Therefore, by investing in the digitalization of our infrastructure, we can keep our system under control whilst also ensuring that markets are functioning better.

**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

Yes. Let's focus a little bit on the number, EUR 1.5 billion. That's the highest annual investment amount ever for Elia Group in 1 year. What effect did that have on the RAB, the regulatory asset base?

**Catherine Vandendorre** - *Elia Group SA/NV - CFO & Member of Executive Management Board*

Yes. This has led to a RAB growth of 5.8%. I will comment on this further later on.

In terms of system performance, we again demonstrated very high levels of grid reliability, 99.99% in Belgium and 99.79% in Germany, while inferring operational excellence, quality and efficiency. This makes us one of the most reliable grid operators in Europe despite very turbulent times.

In terms of financial results, Elia Group achieved strong result across all 3 segments, leading to a return on equity of 7.52%, reaching the upper end of our Q3 guidance.

**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

Chris and Catherine already mentioned some of the highlights from the past year. However, we celebrated many more. And we've put all of our key realizations together in 1 video. Let's take a look.

(presentation)

**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

Welcome back. Belgium is running the show. We will now take a moment to further discuss the Belgian Energy Island. It was only earlier this week that the contract relating to the design and the construction of the island's foundations was awarded to a consortium consisting of DEME and Jan De Nul, 2 Belgian companies specialized in complex hydraulic engineering. Elia received several bids from international companies, but based on the criteria included in the invitation to tender, the best offer came from the Belgian consortium EDISON. The Belgian Energy Island will be built by a Belgian consortium. Chris, I suppose that being Belgian was not the decisive criteria to win this tender.

**Chris Peeters** - *Elia Group SA/NV - CEO, Chairman of Executive Management Board & TSO Head*

No, Marleen, although, of course, as a Belgian, I'm so proud that they could win this. But the real reason why they could win this was because they had a very, very good technical innovative proposal that was based on caissons filled with sand. And so they had a very, very competitive offer. So also in commercial terms and contractual terms, they came out of the best. And probably as important for Elia as well. They had a very, very solid safety program linked to it. And safety is, of course, one of the core elements of the mission statement of Elia. And therefore, it worked for us, important that they were scoring very high on those 4 criteria.

**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

This is the very first contract that has been awarded for the construction of the island. More will follow for the submarine cables and the AC and DC infrastructure. Both the project team and subcontractors are really enthusiastic about this project. We call for some of their thoughts during the signing ceremony.

(presentation)

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**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

The only one can be the first, Chris. Why are you so excited about this project?

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**Chris Peeters** - *Elia Group SA/NV - CEO, Chairman of Executive Management Board & TSO Head*

Well, Marleen, it's a really groundbreaking project. If you look at it, it's not only the first island that we build at sea, but also it's the most cost-efficient way to bring the 3.5 gigawatt of offshore wind power from the Princess Elizabeth zone back to shore. Not only that, it will also serve in the future as the first hub at sea and first hub at sea means that it will be part of an integrated network. The first thing that we will do is connect the second cable to the U.K., which is the Nautilus cable also to the island, and later on, we will also connect the Triton cable, which is our first direct interconnection towards Denmark. It will be connected to their island. And so therefore, it's a start of a real offshore grid.

And that puts Elia Group again at the forefront of technology and at the forefront of the energy transition. We made already a first big step a few years ago when we did the inauguration of the combined grid solution, which is the first hybrid interconnector in the world, also something which was technologically very complex. It's now running in a very reliable way already for 2 years. And we learned a lot, of course, from that experience and still until today, it's one of the -- it's the only one that actually runs in the world, and we see a lot of other people looking at similar solutions that they want to integrate in the way how they unlock offshore potential.

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**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

Yes. Catherine, now that the contract has been awarded, what are the next steps?

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**Catherine Vandenborre** - *Elia Group SA/NV - CFO & Member of Executive Management Board*

Well, along with the chosen contractors, our project team is optimizing the design of the island. In a few weeks, we'll start a so-called Oxo campaign to look for any unexploded ordnance left along the seabed during the 2 world wars. In a year's time, the construction of the foundations will be underway. They will take about 1.5 years to complete. In early 2027, the construction of the electrical equipment will start. As we develop the technical specifications of the islands, we have adopted a nature-inclusive design approach.

Along with a group of nature and concentration experts, we are working on designing the island in such a way that it will have positive effects on flora and fauna. We are currently looking at the feasibility of the proposals, and we'll then decide what elements will be included in the final design.

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**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

Okay. Thank you, Catherine. That's all for now for the Energy Island.

Let's talk about another recent signing ceremony, the signing of an MOU with Amprion relating to a second interconnector that will run between Belgium and Germany. This event took place against the background of a Belgium-German Energy Summit in Zeebrugge, which was attended by the Belgian Prime Minister, Alexander De Croo, and the German Chancellor, Olof Scholtz. Chris, what societal value will this second interconnector between Belgium and Germany bring to both our countries?

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**Chris Peeters** - *Elia Group SA/NV - CEO, Chairman of Executive Management Board & TSO Head*

Well, Marleen, we have already seen with the Allegro project that this was bringing a lot of welfare. The Allegro project was commissioned 2 years ago. and it's now functioning most of the time from Germany to Belgium, 60% of the time, 40% of the time, energy is flowing from Belgium to

Germany. So we see that actually we're supporting each other with this interconnector. And that support has multiple dimensions. First of all, of course, it's a strong contributor to security of supply, which is an important topic these days in both countries.

Secondly, it helps both of the countries to integrate more renewable because it creates additional flexibilities on the system. And finally, it makes sure as well that we create additional welfare by price convergence, which is, of course, always important when we build this important new infrastructure.

If we look at this specific second interconnector, we will publish a concept by mid next year. But the real commissioning of this infrastructure is only foreseen by 2037, and that is because we have to first reinforce the backbone at both sides. So the German group needs to be reinforced to have sufficient receiving capacity, and the same needs to happen at the Belgium side. But I look very optimistic at this project. We had a very good collaboration for the first project with Amprion. We hope that we will work in the same spirit going forward on this project. But probably even more important, this project again shows how committed we are towards the energy transition in both Belgium and Germany. And by linking them stronger, we made this long even stronger not only by developing faster grid in 50Hertz, but also by linking the 2 countries together.

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**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

One of the main concerns during the German Belgian Energy Summit was how to keep industry in Europe. To support the electrification of industry, the right infrastructure will have to be built in the short term. And we have some statements from both countries, heads of state to share with you about this.

(presentation)

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**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

Keeping industry in Europe is at the top of the European agenda. There is a need for more collaboration and huge investments in infrastructure. Chris, all of these topics were covered in the latest Elia Group study on the electrification of the industry. What will be on the agenda? What will be the topic for this year?

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**Chris Peeters** - *Elia Group SA/NV - CEO, Chairman of Executive Management Board & TSO Head*

Well, as you know, each year, we come out with something which is focused on the interest of society, and this year is it making flexibility work. And why is this so important? Because we will need a lot more flexibility if we start to integrate more intermittent renewables. And so that is something that is really key that we unlock more flexibility in the system coming from the side of the electrification because there, there will be a lot of flexibility available to us.

And what we see in the vision that we have developed in Elia is actually that flexibility will be the glue of the sector conversion. So many sectors will electrify and by flexibility, they will connect to the energy sector. And that will really shape how this society will be built. We've seen in the past that something like a car has defined how we do shopping, how shopping malls are outside of cities with large parking lots, to give 1 example. And so how people commute to work.

We think as well that if we start to have, for instance, EVs that it would not only be used for mobility reasons, but people will also use it for cooking in the evening while they have charged their car during the day with the solar panels of their company while they were at work. And so therefore, it's a very important topic and a lot of new developments will happen in the coming years, thanks to that flexibility. And so we see the value for society, but we also see the value for us as a system operator because we need to keep the cost of balancing the system as low as we can. And so if we can tap into that flexibility that will come in, by those EVs, by those heat pumps, by e-boilers in industry, we can do balance the system at a lower cost than what we do today.

And therefore, it's very important that we give some benefits to society so that they can monetize their flexibility. And meanwhile, that helps us as well to balance the system.

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**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

You create value for the society and it's also good for the company.

There are 2 more recent events that I want to touch upon briefly before we get down to exploring the numbers. Stefan Kapferer extends his contract as CEO of 50Hertz with another 5 years. Chris, I suppose that you are very happy with that.

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**Chris Peeters** - *Elia Group SA/NV - CEO, Chairman of Executive Management Board & TSO Head*

Well, Marleen, if you look at the picture, you can only see that there are 2 happy men on earth picture, and that's because we think Stefan is the right man in the right place. As you know, Germany has a very big challenge in terms of energy transition, and Stefan has shown over the last years that he is doing the right things. He's very hands on. He makes sure that we can accelerate on the CapEx delivery and that we, in parallel, develop the needed digital skills to make sure that the energy vendor can be pushed through at the speed that the government wanted to do. And therefore, he has the full support of Elia Group going forward that we will also have the acceleration at both sides, CapEx delivery and digitalization delivered on time, on budget and on the needed quality.

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**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

One last recent topic that we would like to share, Elia Group is one of the 20 companies that has been selected to be part of the new Bel-ESG index launched by Euronext. The Bel-ESG is the sustainable version of the National Blue Chip Index and tracks the Brussels listed companies demonstrating the best environmental, social and governance practices. I think Catherine deserves as a great recognition for the ActNow program of Elia the sustainability program, and it also serves as a perfect link towards the next topic, green financing. Can you give an update on this?

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**Catherine Vandenborre** - *Elia Group SA/NV - CFO & Member of Executive Management Board*

Sure. Our sustainable finance ambition was launched in 2020 when we published our first green bond framework in Germany. This was followed by 50Hertz, placing of its inaugural green bonds, and shortly after that, ETB also published its green finance framework. Both frameworks are in line with best market practices. In 2022, we successfully placed our second green bond in Germany. We raised EUR 750 million securing liquidity for the grid expansion needed for the energy transition. Under the framework, 50Hertz finance is selected on an offshore project. Today, around 90% is allocated to 14 different projects.

Also in 2023, we continued on our sustainable finance journey with ETB issuing its first green bond of EUR 500 million. It shows ETB's ability to diversify its investor base to carry out its ambitious investment plan. The transaction is an important cornerstone in driving forward the expansion of our grid and thus the energy transition. We observed that the overall ESG profile of both ETB and 50Hertz remains the key driver for attracting funds that have a very strong ESG commitment.

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**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

Okay. Catherine, you already provided us with a few key figures. Let's now dive into the group's full year results.

**Catherine Vandendorre** - *Elia Group SA/NV - CFO & Member of Executive Management Board*

Indeed, Marleen, and so let me walk you through the group's full year results. First, Elia Group's revenues amount to EUR 4.1 billion, an increase of almost 44% compared to prior year. In Belgium, our revenue was impacted by higher regulated net profit, higher depreciations linked to the growing asset base, one-off tariff compensation for the financial cost linked to the capital increase and higher cost for ancillary services. The higher ancillary services resulted from the high gas prices caused by the war in Ukraine, and the increase of imbalance volume caused by the increase of renewables in the energy mix.

In Germany, revenues increased as well, mainly due to the higher energy revenue resulting from higher energy prices affecting the balancing and redispatch cost. EBIT increased compared to previous year, totaling almost EUR 600 million. This increase by 11% is driven by the following elements: For Belgium, it was the result of the higher regulated net profit, higher depreciations and higher financial costs linked to the capital increase, which are fully passed through as a consequence of the regulatory framework. In Germany, the higher EBIT was primarily a result of higher investment remuneration and lower operational expenditures as prior year costs were marked by peak in the maintenance cycle. This was partially offset by one-off regulatory settlements.

Finally, the contribution from associates to the group's EBIT dropped by EUR 9.9 million, mainly driven by the Nemo Link interconnector which reached the cumulative gap in 2022. The Elia Group's net profit increased by 24.3% reaching EUR 408 million. This result was mainly driven by a strong operation and financial performance of our regulatory assets, with Germany contributing around 55%, ETB around 40% and Nemo Link, 10% to the net result.

The nonregulated activities contributed negatively to the result as we continue to ramp up our investment in view of developing international offshore activities, with the net profit attributable to Elia shareholders of EUR 342 million, Elia Group realized an adjusted return on equity of 7.52%.

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**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

Catherine, an important driver of all those results is the growing asset base of Elia Group. How is this reflected in the RAB, the regulatory asset base?

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**Catherine Vandendorre** - *Elia Group SA/NV - CFO & Member of Executive Management Board*

Yes, and indeed, Marleen, the regulated asset base is a key driver of our remuneration. And so driven by the realization of the investment program, the RAB of Elia Group increased by 5.8% year-over-year, amounting to EUR 10.9 billion at the end of 2022.

For Belgium, the RAB increased by approximately 1.5% while in Germany, it increased by 10.9%. Despite realizing the announced CapEx plan, the RAB growth in Belgium was slightly moderate. As part of the recovery and resilience facility, Elia received a capital grant of EUR 99.7 million for building the Princess Elizabeth Island as this project directly contributes to a greener economy, being a cornerstone investment for unlocking the offshore wind potential at the North Sea.

The capital grant is deducted from the RAB in accordance with the regulatory framework. Nevertheless, and as illustrated on the graph, the RAB of Elia Group has increased considerably over the last few years due to the realization of major infrastructure works in Belgium and Germany, both onshore and offshore. These were carried out to enable the establishment of an integrated European energy system that includes a large amount of distributed renewable production and cross-border electricity flows at the lowest possible cost for consumers.

Over the next 5 years, we are confident that we will be able to pursue an anticipated asset growth of around 14% on average on an annual basis at group level.

Let us now turn to the net debt of Elia Group. We carried a total net debt of around EUR 4.4 billion, which represent a decrease of 9.3% compared to last year. This decrease is primarily due to 3 items. First, operating cash flow generated by the TSOs. In this respect, the operating cash flow of 50Hertz was negatively impacted by the high energy cost and recovered from tariffs, but with a time lag. Second, the energy cash inflow in Germany,



resulting from the evolution of the energy market prices year-over-year. Third, the capital increase that took place at the end of June with net proceeds amounting to EUR 583 million.

As I mentioned earlier, Elia Group invested roughly EUR 1.5 billion infrastructure. These investments were mainly financed by cash flow from all operating activities but also external funding. And besides accessing the equity market, Elia Group also tapped into the debt market to strengthen and secure its liquidity position for its further expansion of the grid.

As already said, Eurogrid GmbH issued its second green bond in September for EUR 750 million at a fixed rate of 3.28%. So securing part of the liquidity for its upcoming on and offshore project. After this transaction, Elia Group's average cost of debt increased slightly by 3 basis points to 1.7%.

Today, Elia Group only has fixed rate debt outstanding. And following the announcement of our EUR 15.9 billion CapEx program for the period 2023 to 2027, that we did end of December, as well as the revised financial policy targets, S&P Global affirmed Elia Group's BBB+ rating, but revised the outlook to negative from stable at the end of December 2022.

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**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

These are the figures for the group. Let's zoom in now on the different segments of Elia Group, and we start in Belgium. Six months ago at the half year results presentation -- presentation results, sorry, we reported that Belgium was well on track to reach the performance targets. Earlier, we saw the increase in the RAB. How does this translate into the year-end figures for Belgium, Catherine?

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**Catherine Vandenborre** - *Elia Group SA/NV - CFO & Member of Executive Management Board*

And indeed, Marleen, Belgium achieved results in line with our expectations. Let me take you through the key figures. I explained earlier why the revenues increased, so let us move straight to the bottom line. The net profit came in at EUR 157 million, up by almost 20% year-over-year. The key drivers of this increase are: first, a higher fare remuneration, up by EUR 12.1 million driven by both the asset growth and a higher equity following Elia Group's capital increase. Second, the contribution from incentives increase by EUR 1.4 million, reflecting a solid operational performance by ETB primarily linked to a better performance on the incentive for innovation and influenceable cost. The net contribution of the incentives also benefited of a lower average tax rate.

Also, the employee benefit and tax provision decreased by EUR 7.9 million due to higher contributions to plan assets and a higher discount rates. Furthermore, the result indirectly benefited from the one-off tariff compensation for the financial cost linked to the capital increase up by EUR 3.6 million. These are accounted through equity under IFRS. But as you may know, these costs are fully passed through to the tariffs under the embedded principle.

Finally, the higher level of assets under construction led to an increase of the capitalized borrowing costs by EUR 1.7 million. This resulted in a return on equity of 5.4%.

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**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

You already referred Catherine to the successful capital increase. Can you tell a little bit more on the impact that it has had on the financial position of Elia and Belgium?

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**Catherine Vandenborre** - *Elia Group SA/NV - CFO & Member of Executive Management Board*

Yes. Supported by the recent capital increase, like you said, ETB has a very solid capital structure. The balance sheet was strengthened with around EUR 287 million of equity, representing the net proceeds of the capital increase allocated to the Belgian regulated activities. Together with profit

reservation, it ensures an equity portion above 40% of the regulated asset base in order to finance or further organic growth. In addition, anticipating the rising interest rate environment, ETB concluded various interest rate hedges to limit the interest cost of further debt issuance, and this to the full benefit of consumers.

The fair value of this contract amounted to EUR 48.9 million at the end of 2022. The company's liquidity position remains robust and both the sustainable revolving credit facility and commercial paper were fully undrawn at the end of 2022. ETB's credit rating was reconfirmed by S&P. It stood at BBB+ with a stable outlook. At the end of 2022, ETB has a well-balanced debt maturity profile with a weighted debt duration of 5.4 years and an upcoming bonds maturing in Q2 2024. The average cost of debt remained unchanged at 1.9% as no new debt was issued over the year.

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**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

Okay, that's for Belgium. Let's now turn to Germany. Earlier in the presentation, Catherine, you already mentioned, the strong increase in revenues that was driven by the higher energy revenues and a higher investment remuneration. So what about the 50Hertz bottom line? What was the effect on the results there?

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**Catherine Vandendorre** - *Elia Group SA/NV - CFO & Member of Executive Management Board*

Okay, so first, let me say that the net profit came in at EUR 236 million, which was up by 43% compared with the previous year. And there were several key drivers behind this result. Firstly, the ongoing investment program led to increased asset remuneration, which was up by EUR 54 million. At the same time, depreciation cost increased by EUR 26 million. Both were impacted by the partial commissioning of Ostwind 2 in late 2022, leading to a full year of imputed remuneration.

Secondly, onshore OpEx and other costs decreased by EUR 12.3 million, mainly following the ramp down from last year's peak of the maintenance cycle and lower losses on asset disposal and trade debtors. This was partly offset by the growing workforce, which was driven by expanding business activities and the complexity of our operations.

Finally, the financial result improved by EUR 43 million. This increase is almost entirely due to the macroeconomic and inflationary environment, which pushed up the forward interest rates compared to previous year impacting the valuation of long-term provisions. These provisions are mainly linked to congestion income from international onshore and offshore interconnectors and are to be returned to grid customers over a period of 20 years. These effects were partially offset by lower regulatory settlement and related provisions, which were down by EUR 13.2 million.

In 2022, 50Hertz mainly benefited from the final settlement of the offshore lump-sum for the year 2018 and the review of the 2019 regulatory account which amounted to EUR 15.9 million. In 2021, the regulatory settlements originated from the refund of clawback amounts as part of the transition towards capital cost adjustment model in 2024. This all resulted in a return on equity of 11.3%, excluding hedge accounting.

If we were to exclude one-off effects linked to the regulatory settlement and the noncash effect from discounting the provision for congestion income, the return on equity would be around 9%.

Let us now look at the 50Hertz financial position. The total equity increased by EUR 252 million to around EUR 2.2 billion. This increase was primarily driven by the additional capital that both Elia Group and KfW injected into Eurogrid to strengthen the balance sheet and in light of its CapEx program. The transaction demonstrates the strong relationship between shareholders and the company's commitment to realizing the energy transition.

Since 2021, 50Hertz has applied hedge accounting for the purpose of reducing the risk of fluctuations in the expected amount of grid losses. Driven by a drop in energy prices in the last quarter of the year, the fair value of this contract dropped leading to a decrease in the hedge reserve to EUR 91 million. As the cost for grid losses are almost fully passed through to the tariffs, the fair value of further contract has no relevance for the current and future profitability of the company. Therefore, the hedge reserve is excluded from the regulatory return on equity reported for the German segment.

The liquidity position of EUR 50 remains strong at EUR 4.2 billion with all revolving and overdraft facilities fully undrawn. At the year-end, the EEG cash position amounted to EUR 2.9 billion. As you might know, the parliaments abolished the EEG surcharge in order to support households and companies in light of increased electricity cost.

The cost for promoting RES are now financed through the Energy and Climate funds and 50Hertz will continue to act as a trustee in this regard. We currently forecast that the EEG cash balance will remain stable at the current level by the end of the year.

Following the issuance of the green bond, the average cost of debt increased slightly from 1.4% to 1.52% at the end of 2022. The maturity profile remains balanced, with a weighted debt duration of 6.8 years.

At the end of 2022 and following the announced CapEx plan for 2023 to 2027, and Eurogrid's updated financial policy, S&P confirmed its BBB+ rating but revised the outlook to negative from stable.

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**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

Yes, that were the results from Germany. But besides the results in Belgium and Germany, Elia Group also operates Nemo Link. We have nonregulated activities. How did this third segment contributed to the results, Catherine?

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**Catherine Vandendorre** - *Elia Group SA/NV - CFO & Member of Executive Management Board*

Our third segment had a positive contribution of EUR 15.2 million to the group's net results. The key drivers were as follows: Firstly, Nemo Link contributed EUR 37.1 million to the group's result, representing a decrease of EUR 9.9 million compared with the prior year. The contribution was the result of a very strong operational performance. The interconnector has an availability rate of 99%. But also important electricity prices spreads characterized by many flows reversals between Belgium and Great Britain. Those spreads were mainly driven by important differences in gas prices between Great Britain and Europe, due to a different relationship with Russian Gas. As announced during the presentation of our half year results, Nemo Link reached the cumulative revenue cap as part of its cap in floor regime. Revenues that exceeded the cap will be returned to the consumers.

In this regard, Nemo Link and the Belgian and British regulators have approved reimbursement of around EUR 137 million for consumers as part of within period adjustment. This will result in grid tariffs being reduced by EUR 67 million in both countries.

Besides Nemo Link, the result from our nonregulated activities were affected by higher cost linked to the setup of WindGrid and ongoing screening of business development opportunities in light of the expansion of all international offshore activities. Finally, we continue to further develop re.alto services.

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**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

Okay. The last element before we turn to the outlook, is the dividend policy, Catherine, what can be expected?

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**Catherine Vandendorre** - *Elia Group SA/NV - CFO & Member of Executive Management Board*

We will propose to the General Assembly and increase dividends amounting to EUR 1.91 per share to the General Assembly in May, I think. This represents an increase of 9.14%, in line with inflation and takes into consideration our CapEx plan and also our commitment to execute our organic growth strategy.

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**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

One last point. We still need to cover the outlook for 2023. That's your last slide for today, Catherine.

**Catherine Vandendorre** - *Elia Group SA/NV - CFO & Member of Executive Management Board*

Yes, and I would say this year more than ever before, Elia Group's focus lies in speeding up the delivery of infrastructure and developing a consumer-centric system and market solutions in the lead up to net 0 without compromising on operational excellence, quality or efficiency. And given the complexity of our infrastructure works, the need for additional staffing resources, the need to improve our IT architecture and associated tools to manage the increasing complexity of power system operations we will experience increased pressure on our cost allocation in 2023, which is the last year of the regulatory cycle.

Elia Group aims to realize an adjusted return on equity of between 6% to 7% for 2023, in line with what we communicated during our Capital Markets Day back in 2021. Note that this return depends on the return on equity of all regulated activities in Belgium and in Germany and also on the contribution of our nonregulated activities including Nemo Link. Additionally, this return already anticipates higher funding costs.

In Belgium, we aim to achieve a return on equity of between 5% to 6% while investing around EUR 690 million. In Germany, we aim to achieve a return on equity of between 8% to 10%. As mentioned earlier, this return excludes the effect of hedge accounting on future contract for grid losses, which are accounted through other comprehensive income. In 2023, 50Hertz Transmission intends to invest roughly EUR 1.5 billion.

For the third segment, we expect it to report a loss of up to EUR 5 million to the group results subject to the availability of the interconnector, Nemo Link is expected to contribute around EUR 20 million to the result, considering that the cumulative cap over the 5-year regulatory period is expected to be reached.

On the final note, I would like to point out that this guidance obviously doesn't take into account any potential M&A transaction. It's now back to you, Marleen and Chris, to conclude today's presentation with some investment guidance.

**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

Thank you, Catherine, for your comprehensive presentation of the annual results.

Indeed, let's have a look at the investment program of the next 5 years, and we start in Belgium. Chris, what big trends are likely to appear?

**Chris Peeters** - *Elia Group SA/NV - CEO, Chairman of Executive Management Board & TSO Head*

Well, Marleen, we already announced November when we had the quarterly update that our CapEx plan has an important increase for Belgium. It moved from EUR 4 billion to EUR 7.2 billion, and this is the result of the acceleration of the program, but also because we are in an inflationary environment. And what needs to happen in Belgium is relatively clear. Belgium is a country that is energy short. It means it needs to develop to its full potential, the domestic renewable energy. And on top of that, it needs to complement that with interconnectors to other countries that are long in this renewable energy. And for that, of course, we talked already about the island. We not only need to build this island. We also need to enforce the backbone so that we can receive all this energy.

If we talk about reinforcing the backbone, it's mainly about the existing corridors, but that will not be enough. We also have to develop additional hosting capacity, and that brings some of them back to the projects, Ventilus and Boucle du Hainaut, which are key if we want to receive all the energy coming from the sea into Belgium. But if we deliver that, we will have a much more robust network that will be ready for the future and to ensure that we can fully decarbonize the industry. And in terms of regulated asset base, we expect a growth from these plants, which is around 15% for the next 5 years.

**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

Okay, let's turn to Germany. The CapEx program for the next 5 years. has also been substantially increased in Germany, Chris.

**Chris Peeters** - *Elia Group SA/NV - CEO, Chairman of Executive Management Board & TSO Head*

Yes. Indeed, at the same announcement in November, we declared that we moved from EUR 5.6 billion CapEx plan to EUR 8.7 billion CapEx plan. 65% of that will be dedicated to the onshore development of the grid most important project, well-known SuedOstLink, which is one of the most important corridors between the North and the South, so connecting the offshore wind energy towards the demand centers in the south. It will have an extension, which is called the SuedOstLink Extension, it's in the name, and that will increase the capacity to 4 gigawatts over that line. But not only that, it will extend the line to the full North.

In addition, in the last network development plan, there was a new project, which is called the North Ostlink. You see it here on the map. It's connecting Heide with Kleine Rogahn in our network, and therefore allows in the future that wind farm that are in the German North Sea will be connected to the South of Germany through the network of 50Hertz. This is a project that we will do together with TenneT, but it's a very important project, of course, for the development.

Then if you look at the rest of the onshore grid, one of the important projects that we showed earlier was as well the Diagonal Power Link in Berlin. That's a very important project for Berlin because it will increase the security of supply of Berlin and on top of that, get Berlin ready for the electrification of society.

If we then look at the offshore side, you see that we will have Ostwind 2, Ostwind 3 and Gennaker project that will be delivered in the coming period, which means that we will connect an additional 2 gigawatt of offshore wind from the Baltic Sea. And of course, also talked about before in this communication, the Bornholm Island. We have also an island project in the Baltic Sea. It's connecting not only 3 gigawatt of offshore wind close to the Bornholm Island to the German mainland, but also to Denmark and therefore, serving as a hybrid interconnector again. So a lot of exciting projects on the way and therefore, of course, a rough increase that we will see of around 13% for the next 5 years.

**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

We presented the financial figures. We presented the outlook. Is there one final thought, Chris, that you would like to share with us to end this presentation?

**Chris Peeters** - *Elia Group SA/NV - CEO, Chairman of Executive Management Board & TSO Head*

Well, Marleen, every year, we more or less say the same thing. We need to accelerate the energy transition, but probably everybody has seen in the last year, it becomes very important. It's not only about climate change. It also has become something about becoming more independent in terms of energy and getting to affordable green energy fast. And that is important because that will allow us to anchor our industry in Europe and to give low prices to citizens that are independent then from countries that we don't want to be too dependent of.

Elia is fully ready to support that. You've seen the nice project that we have delivered and a nice pipeline of projects that we have to develop this. Also at the digital side, we are making big steps forward to allow flexibility to be integrated. But of course, it's not only Elia that needs to be ready. Also the authorities and the regulators need to be ready. We need to have, of course, more acceleration at the site of permits and also a decent framework in terms of attracting capital going forward. But if we have this all together, we look forward to really support governments to deliver the energy transition and to deliver this on time and even faster than we are delivering it today.

**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

But indeed, we need the tools to fully support the acceleration of the energy transition. Thank you, Chris.

Ladies and gentlemen, I suggest we now move on to the Q&A section. Yannick Dekoninck, our Investor Relations manager will guide us through this. Yannick, could you share the first question with us, please?

## QUESTIONS AND ANSWERS

**Yannick Dekoninck** - *Elia Group SA/NV - IR Officer*

Okay. Thank you, Marleen. So I propose to start with Juan Rodriguez from Kepler Cheuvreux. Welcome that you participate to our analyst meeting.

**Juan Camilo Rodriguez** - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

I have 3 on my side, if I may. The first one is on the CapEx plan. I saw on the press release that you're willing to go with this EUR 15 billion plus CapEx plan if the regulatory framework supports the investment. Can you please elaborate on this? I would like to better understand. If the case is not very supported, would you revise the plan downwards, or how are the discussions advancing with the regulators on this sense? That will be the first one.

The second one is on the recent news flow that we've seen over German government willing to take stake in some of the country TSOs. What are your conditions for this to move forward and up until what level you're willing to sell a stake or a minority stake that will be the case and could minority disposals will be an option for capital reinforcement ahead of the upcoming CapEx plan? That will be the second one.

And the third one is kind of a housekeeping one, are you expecting any capital grant for 2023 that is might impact or is already included within your RAB target of EUR 12.3 billion by the end of the year?

**Chris Peeters** - *Elia Group SA/NV - CEO, Chairman of Executive Management Board & TSO Head*

Okay, maybe a comment from my side on the CapEx plan. Obviously, as a TSO, we are committed to deliver this. It's up to the regulators to provide a framework that allows us to deliver that. And we are in discussions at both sites with BNetzA and with CREG in Belgium, to ensure that a framework that is adjusted to the recently changed market conditions is in place. And so if we can do that, then of course, we will fully deliver that plan. I think they're well aware of the importance to make that happen. I'm not going to comment more on ongoing discussions at this point of time because it's a little bit early to comment on that, but you can be sure that we're working on that and that also both regulators understand the need of adjusting to the current reality.

In terms of the minority disposals, there are no current plans of any disposals that we have. We are committed to the plans. We are further growing our asset base, and that is what we do in the interest of society and ensuring that we deliver the energy transition infrastructure that is needed.

**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

Then we have a question on Germany.

**Catherine Vandenborre** - *Elia Group SA/NV - CFO & Member of Executive Management Board*

We had also a question on TenneT, especially a question on the capital grants. I propose you take the one on TenneT, and I'll take the one on capital grants.

**Chris Peeters** - *Elia Group SA/NV - CEO, Chairman of Executive Management Board & TSO Head*

I mean, everybody has heard in the press that there are discussions ongoing. These discussions are between 2 governments, of course we're not directly implemented. We follow that by close. We hold on to our strategic position that we have in Germany. Germany is very key for the development of Elia Group. So today, there are no plans that we would change our position in Germany towards reducing that.

So we just look what is the consequence of what's going to happen there. But also, I think in the TenneT file, it's a little bit early to see what the final result will be. We understand that there are 3 different options on the table a majority or even a full sale of that. And of course, those 3 options have a very different consequence of what could happen to the German market, but we follow this from close.

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**Catherine Vandendorre** - *Elia Group SA/NV - CFO & Member of Executive Management Board*

And in terms of capital grants, no, there is no capital grant currently foreseen in the 2023 investments. Of course, capital grants, they are part of what we are chasing for financing the energy transition, so in case that we would have new capital grants we would inform you. But for the time being, nothing foreseen in the investment line of 2023.

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**Yannick Dekoninck** - *Elia Group SA/NV - IR Officer*

I now propose to switch to Piotr Dzieciolowski from Citi.

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**Piotr Dzieciolowski** - *Citigroup Inc., Research Division - VP*

I want to ask you 2 questions or maybe 2.5. The first one, when you think about this concept about consolidation of a German grid, what do you think the operation -- apart from the financing ability, what kind of operational benefits would you see in the process of consolidating and making 1 TSO as opposed to 4? And then second, in the discussions with the German regulator, I just wanted to understand your thinking of value creation spread you required to achieve. So you currently are targeting 8% to 10% ROE in Germany. How do you think about this traverses the risk rate on the ROE that you are happy with? Because 8% to 10% doesn't seem to be too bad of an investment as opposed to your Belgium network. And then finally, this half question, do you know what are roughly a RAB value for the German grid of DSOs?

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**Chris Peeters** - *Elia Group SA/NV - CEO, Chairman of Executive Management Board & TSO Head*

Okay. I will take the first one on consolidation of the grid. I think today, there are, let's say, discussions ongoing and what comes out of these discussions are -- there are a number of benefits in terms of synergies that you can create. You bring together a higher procurement power if you bring together those companies. On top of that, one could see as well a couple of relatively small, let's say, operational synergies, for instance, in IT, et cetera. So there are a couple of advantages that you have. These, of course, need to be counterbalanced with a reality where you see that if you would have now a major, let's say, integration program coming up that, that would actually move attention away from the delivery of the CapEx program.

And so I think that German government is well aware that if they would, at some point of time, want to go to an integration that this will be an integration that will happen in multiple steps and will happen slow because -- if you go into a fast and overnight integration of 4 TSOs is probably the focus for the next 2 years will be more on the internal of this company than on the external delivery and the external delivery can really not be stopped. Actually, it needs to be accelerated. So we expect not that a full integration will be for tomorrow. Obviously, we follow this file from very close.

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**Catherine Vandendorre** - *Elia Group SA/NV - CFO & Member of Executive Management Board*

Then on your 2 other questions. You had one question on the RAB. I can only give information on the RAB we see for 50Hertz. The EUR 6.8 billion that we mentioned in the presentation, I can't mention any RAB figures for the other TSOs in Germany. I think your question was on the total RAB of all the TSOs, but that's something that you probably need to ask to the different TSOs operating in Germany because the information is not as such a public.

On the question on the value creation, the 8% to 10% return on equity that you mentioned is indeed what we target for the year 2023. You have seen also in the guidance that we gave at the occasion of the capital increase that the regulatory framework has been reviewed and that the return

on equity is expected to decrease on the next regulatory period starting from 2024 in Germany. Based on the information we have today, knowing that all the discussions are not finished, especially regarding the reference for the cost, the well-known busy year, but also the efficiency factors, individual and general efficiency factors, we expect the return on equity to be in the next regulatory period between 7% to 9%.

Important to note in that context is that there are different components of the expected return on equity. First component is what we call the fair return. It's usually based on expected evolution or past evolution depending on the regime of the interest rates. And then efficiencies and possibly leverage. What we have seen when the regime has been redefined for Germany is a decreasing fair remuneration level from 6.65% in the current period to 4.13% expected in the next regulatory regime. And that's where that we believe that with the current macroeconomic environment that we have, the 4.13% and also depending a little bit on further evolution of the interest rates, might have to be revisited.

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**Yannick Dekoninck** - *Elia Group SA/NV - IR Officer*

Then I'm also very pleased to welcome today Mafalda Pombeiro from Goldman, that just recently started covering the Elia share. So I would say Mafalda, the floor is yours as well.

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**Mafalda Pombeiro** - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

I think most have been answered. Right now, I have just a remaining one, if that's okay. I mean last November, you upgraded your CapEx once again to nearly EUR 16 billion as was previously referred in the presentation. Since then, we've seen increasing pressures from political -- I mean, increasing political support for further acceleration on energy transition investments in Europe. Would this imply or could this imply further CapEx upgrade in the near future for Elia? And maybe a bit too early, but I think worth asking, and if so, I mean, how do you actually think about we do balance those investment needs with your balance sheet coping capacity?

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**Chris Peeters** - *Elia Group SA/NV - CEO, Chairman of Executive Management Board & TSO Head*

Maybe I will first comment on what we think that the impact could be on the CapEx plans on the recent pressure that we see, and maybe Catherine can give a comment on the balance sheet consequence that we have. So today, we don't have yet a clear view because, of course, the changes in the law are very recent. Now we have to see what the impact will be, most importantly in this is of course accelerated permits could lead that some of the projects would be put forward. It's not yet clear which project would be impacted by that and which will not because, of course, some of these things have to do with what you have to justify towards society.

As I explained before, the number of alternatives you have to provide and to see which is then the best in the interest of society. So they reduce the numbers of that, and it's not yet clear which of our projects will already be part of that new regime, which still will have to be delivered within the former regime. And so we will give updates as soon as that is becoming fully clear, and we understand what's going to happen there.

But so to give the short answer, it's not yet sure, but if something would happen, it could be that some of the projects, a limited number would have a earlier start, which would then lead that by the end of the period, you might have some of the projects that will have a little bit further developed into the CapEx layout that we need for that. And so Catherine, you can say what we would do if that would happen.

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**Catherine Vandenborre** - *Elia Group SA/NV - CFO & Member of Executive Management Board*

And maybe to build on your answer, what you said in the CapEx plan that we mentioned was, indeed, it was more backloaded than front loaded. Your question was also relating to the near future. Do we expect changes in the near future. So in the very near future, no, we don't expect changes, to be very clear on that, because it will take time before that although are past and taken and that we finished the examination of the very concrete consequences. Let's say, medium term and long term, it could indeed lead to a kind of reshuffling of the timing of some investments on which, of course, we'll come back if it's the case.



In terms of financing of the balance sheet, I mean, we continue on the same way as we always did in the past, meaning that, like I already said, we'll try to finance what we can finance to subsidies and grants coming from utilities. That's the first element. Second element, we will continue to reserve profits coming from the different affiliates. And third element, we will finance the remaining portion by a mix of debt and equity. In that context, we will follow the current practices that we have in Belgium, we finance the grid according to the regulatory or regulated gearing ratio of 60% debt, 40% equity. In Germany, we financed according to approximately 75% debt and 25% equity for the remaining portion, and that's the policy we will continue to apply in the future.

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**Yannick Dekoninck** - *Elia Group SA/NV - IR Officer*

Thank you, Mafalda. And then last, but definitely not least, I would like to give the floor to Joren van Aken from Degroof Petercam.

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**Joren Van Aken** - *Banque Degroof Petercam S.A., Research Division - Equity Analyst*

No further questions from my side. I think everything has been answered. Thank you.

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**Marleen Vanhecke** - *Elia Group SA/NV - Head of Group Communication & Reputation*

Okay, if there are no further questions, thank you Yannick. I suggest we bring this presentation to a close. Thank you also, Chris and Catherine, for your contributions today. And thank you, Stephanie Luton; and Helen Bruggess and the whole technical team for your support behind the scenes.

A recording of the presentation, the slides and the script will be made available online later today. Thank you for joining us, and enjoy your weekend.

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