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ELI.BR - Half Year 2023 Elia Group SA Earnings Presentation

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PRESENTATION

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

Good morning from our studio in Brussels. We would like to welcome you to this live stream event that will cover Elia Group's half year results. And for this, familiar faces have joined us, the Elia Group's CFO, Catherine Vandenborre; and CEO, Chris Peeters, welcome.

What's on the agenda. First, we will look back at the most important achievements from the past 6 months. Chris Peeters will discuss the changing context in which we're working and the progress made on the energy transition. Catherine Vandenborre will then take us through the Elia Group financials and the outlook for the rest of the year.

Before we can continue, please read through the disclaimer on screen now. You must take note of this information. Later today, the slide and the script will be made available online.

Let's start off with some images of the second edition of the North Sea Summit held in Ostend in April. Belgium brought together heads of state and government and energy ministers from 9 countries along with the President of the European Commission, Ursula von der Leyen and some hundred leaders from the offshore energy sector.

The Belgian Prime Minister Alexander De Croo called the largest coalition ever around energy in the North Sea. Chris, we just saw you in one of the roundtable discussions. I'm sure that this impressive event was one of your personal highlights of the first year. Last year, you were in Esbjerg in Denmark during the first North Sea Summit, what happened between both events.

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

Well, last year in Esbjerg, Marleen, the consequences of the war in Ukraine were beginning to be felt across the energy market. Four countries came at that moment together, it was Belgium, Denmark, Germany and the Netherlands. The aim was to form a coalition to coordinate actions to combat Europe's dependence on gas and fossil fuels. The 4 partners committed then to quadrupling their collective offshore capacity by 2050 to 150 gigawatts and to making the North Sea the largest sustainable energy plant in Europe.

In addition to the founding countries, the North Sea Summit in Ostend brought 5 new countries to the table, France, the United Kingdom, Ireland, Norway and Luxembourg. Ostend advanced collective ambition to harness the full renewable energy and industrial potential of the North Sea. I'm proud to say that Elia took the lead for the industrial part of the Summit in Ostend. And during this, the CEOs of 100 top European companies working in the field of offshore renewable energy took part in a series of roundtable discussions as we saw on the video.

We also signed a joint industrial declaration to express or support for the political agreements being committed to, which also included some pain points. Scaling up the offshore renewable sector requires large-scale investment in ports, grid infrastructure and in staff training. We should eliminate bottlenecks in the production of foundations, cable, transformers, switchgear and security availability of installation and other vessels.

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

In a moment, we'll come back to this important European Summit, but first Catherine, I would like to hear your personal highlights so far.

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

I would say, Marleen, the successful execution of a number of capital market transactions that will provide us with the cash we need during this year to finance our investment plans in Belgium and Germany. So in January, it will be the first green bonds amounting to EUR 500 million. The proceeds will be used to finance eligible green projects.

In March, Elia Group proactively managed its hybrid layer by refinancing part of its outstanding EUR 700 million hybrid. The group issued a new EUR 500 million hybrid, accompanied by cap tender offer on the existing hybrid security. Eurogrid has also secured its further funding requirement to 2 market entries. Firstly, it obtained a EUR 600 million green loan to co-finance the offshore grid connection for the Gennaker wind farm project in the Baltic Sea. And additionally, it issued a 7-year bond of EUR 650 million to refinance a bond due in November.

And I think those transactions demonstrate the ability of Elia Group and its subsidiaries to attract additional funding while diversifying our investor base even in more challenging market circumstances. We have also firmly anchored the sustainability ambitions in our financing as well, which is essential for the future success of the group.

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

Yes. This is a final -- financial presentation, Catherine, so we won't keep our analysts waiting any longer. What results can you present so far this year?

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

So first, in terms of investment, Elia Group invested ahead EUR 121 million in the first half of the year. Our primary focus was on reinforcing the internal backbone of both the Belgium and German grids. Also, we continue the development of the necessary transmission offshore infrastructures, enabling the integration of growing quantities of renewable energy. Additionally, we have heavily focused on digitalization and on inferring a timely, high-quality and cost-effective infrastructure delivery.

In terms of financial performance, Elia Group achieved solid results across all 3 segments, leading to an increase in the net profit Elia share of 3.2% to EUR 162.5 million. Also, all nonfinancial KPIs, we're making progress. Elia Group internal carbon price increased from EUR 55 per ton of CO2 equivalent to EUR 200 at the beginning of this year. And by doing so, we aim to demonstrate the monetary value of greenhouse gas emissions throughout the organization, incorporating it into our investment decision-making process.

And lastly, given the war on talent, it's good to see that all people value Elia as an employer. Elia has been named once again best employer in Belgium. Elia was noted as having made the biggest improvement in diversity and inclusion. We also climbed up by 13.5% and it reflects our ongoing efforts to integrate diversity and inclusion into our daily business practices. Furthermore, in Germany, our employer image remains strong, resulting in the successful recruitment of over 170 new employees during the first half of this year.

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

Okay. Thank you, Catherine. Before we come back to you for a more comprehensive look at half year figures, let's return for a moment to the North Sea Summit in Ostend. We have selected some political statements to share with you from its press conference.

(presentation)

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

Yes, many quotes. Let's recap Chris, more offshore wind capacity, faster permitting, more interconnectors, a robust supply industry. It feels like it's the perfect moment to seize the opportunities.

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

Yes, Marleen. We can clearly see here that the energy transition is shifting into a higher gear, and you see that as well that the policymakers start to exhibit more ambition over here. But it's not only that. In parallel, we see that renewable records continue to be shattered repeatedly. And on top of that, the rapid and early spread of electrification across the Belgium and German mobility, heating and industrial sectors exceeds our initial forecast, signaling and remarkable acceleration in the transition.

In recent years, Elia Group has fully prepared itself to face these challenges. We're heavily focused on digitalization and on the timely, high-quality and cost-effective delivery of infrastructure. If you want to follow the political ambition and secure the accelerated pace of the energy transition in the future, it is essential that as a regulated company, we receive a fair remuneration for our activities. And as we all know, currently, there is attention surrounding this matter and it needs to be addressed. As we all know, the market environment has undergone significant changes characterized by higher interest rates and inflation. As a result, we're presently engaged in discussions with the regulators in both countries to ensure that a fair return aligns properly with the current market conditions.

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

Yes. We come back later on this. Imagine, Chris, that the energy sector does not succeed to accelerate and to scaling up, what would be the consequence?

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

Well, if you only look at newspapers a week ago, one of the consequences was on the front page of The Standard, a Flemish newspaper. The article referred to the Netherlands, where more and more companies are facing the refusal of new grid connections due to delayed investments in the electricity grid. As a result, these companies encounter hurdles in their decarbonization process and also their overall expansion. This is posing a threat to the industrial anchoring in Europe.

We have learned from the recent energy crisis that the energy transition is itself an important lever for strengthening resilience against the volatility of international commodity prices, particularly the gas price. A delayed energy transition will certainly come at a much higher cost. In June of this year, Elia published its biannual study, which focuses on Belgium's adequacy and flexibility needs for the coming decade. And there also one of the main messages it carries is that any delay in realizing grid infrastructure will result in additional capacity needs and therefore, additional cost.

One of the graphs of the study that we see on the screen now clearly shows that any delay in the expansion of network infrastructure, for example, projects like Boucle du Hainaut, Ventilus or TritonLink will have a negative impact on the efficiency and cost of the energy transition.

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

With this in mind, both Elia and 50Hertz have published in the past months federal development plans which described the investment needs of the grid over the next 10 to 15 years. I have a copy of the Belgian plan with me, which was approved by the Belgian Federal Minister of Energy in April. The German plan is still work in progress and should be finalized by the end of the year. Chris, let's begin with the German plan. We see a substantial CapEx program described in this draft document.

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

Yes, Marleen. Although it's a draft document, it's a remarkable document. For the first time, the German Grid Development Plan describes an electricity grid that can achieve climate neutrality by 2045. To cover the electricity consumption that is expected to double compared to today, the German Grid Development Plan assumes a fivefold increase in installed capacity from renewable and resource, up to 700 gigawatts by 2045. So integrating these renewables requires more grid development. This includes, for example, 5 new onshore DC connections compared to the previous plan and 20 additional offshore grid connection systems. So the German plan involves substantial investments both onshore and offshore.

As a consequence, this results in increased requirements towards additional staff, and it will put pressure on the level of product availability in the supply chain as the energy transition is happening all over Europe. We will closely monitor this in the upcoming period.

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

That's indeed remarkable. We have a statement from Stefan Kapferer, CEO of our German brand, 50Hertz to share with you about the importance of the German Grid Development Plan and about the return on equity, an important topic given the changing financial markets.

(presentation)

Stefan Kapferer - *Elia Group SA/NV - CEO of 50Hertz & Member of Executive Management Board*

The grid expansion plan 2037 for the first time ever in Germany is calculating a climate neutrality grid for the country. And that means a lot of additional investment opportunities for the TSOs because we have to integrate a lot of additional renewables. We have to combine in the system, the flexibility and electrolyzers to produce green hydrogen. And of course, we have to connect 70 gigawatt of offshore wind capacities in the Baltic Sea and the North Sea in Germany. So this grid expansion development plan makes it much more feasible for us to calculate the investment steps for the future.

It's good news that BNetzA, like they always promised now announced the proposal for a higher return on equity for new investments beginning in the year 2024. That reflects the change of situation in the financial markets, but also for the current asset base, a higher return on equity will be needed in the future. So that's something we have to discuss and negotiate with the BNetzA and we expect a clear decision later in autumn this year.

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

And recently, the German regulator BNetzA has launched a public consultation to revise the return on equity for the next regulatory period. Catherine, can you explain a little bit the new proposal? What can be expected next?

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

Yes, sure Marleen. And as Chris already alluded to, the regulatory return was set during a period where interest rates were considerably lower than now. In addition, investment plans are particularly ambitious and require attracting more capital than in the past. So in order for us to effectively execute our investment program, it is imperative that we receive a fair remuneration that simply allow us to attract the necessary funds.

And in that context, BNetzA submitted to consultation, a proposal of adjustments of the remuneration, specifically for new onshore investment under the capital cost adjustment model. This proposal would be applicable for the upcoming regulatory period, so from '24 to '28. Previously, the initial return on equity stood at 5.07% before tax or 4.13% after tax based on a historical 10-year average interest rate of 0.74%. The new proposal suggests replacing this interest rate of 0.74% with an annual variable prime rate along with a constant risk premium for onshore investment made as from January '24.

As a result, these adjustments would lead to an initial return on equity of 7.09% before tax or 5.87% after tax for new investment under the capital cost adjustment model. As it stands, the current proposal only impacts a limited portion of 50Hertz' regulated asset base and its overall effect on the future net result is projected to be relatively minor, around 20 basis points of return on equity. The consultation period will continue until August '23. And by the end of the year, binding regulation will be issued. Furthermore, a second consultation process is planned for offshore investments later this year. As a reminder, we have communicated our long-term return on equity guidance for the period '24, '28 of 7% to 9%.

Now additionally, I would like to elaborate also on the other pending regulatory matters in Germany. Firstly, let's discuss the cost file. As a reminder, for onshore activities, the cost are determined every 5 years based on a reference year in the middle of the regulatory period. In this case, '21 serves as a reference year for the upcoming regulatory period. The corresponding cost file was submitted to the regulator in June '22 and will be approved likely with adjustments by the end of '23 at the latest. Although the process has commenced, it's too early to comment on the outcome.

Secondly, we're awaiting updates on the individual efficiency and sector productivity factors, the so-called Xind and Xgen. On the expense, we have received indications that 50Hertz should maintain 100% efficiency. On the Xgen, we're still awaiting the outcome. Both of these factors are expected to be formally announced by the end of the year.

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

Okay. Thank you, Catherine. We covered the German Grid Development Plan, which is currently in the process of being finalized. The Belgian plan, as we mentioned earlier, received approval from the Federal Minister of Energy in April. Chris, could you guide us through some of the highlights of the report?

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

Yes. Sure, Marleen. Of course, if you look at those plans, they look a little bit less extensive than what we see in Germany, but they are actually equally important to help Belgium on its way to a net zero society. The further scaling up of renewable energy sources and the far-reaching electrification are creating urgencies that will soon require additional investments to be made.

In the Belgian Federal Development Plan, for example, we included the number of concrete proposals such as the building of additional high-voltage substations. We did without defining yet an exact location for them. This will give us the necessary flexibility to quickly respond to requests from our grid users and to ensure that the energy transition is not blocked or slowed down by grid restrictions.

In comparison with our previous plan, we clearly see a strong focus on grid development in the North Sea and realization of a first offshore energy hub. It is widely now -- known by now that Belgium is going to build the world's first artificial island off its coast. During the North Sea Summit, there was indeed a lot of interest in the model of the island as you can see in the video. The Princess Elisabeth Island will be the first artificial energy hub to combine both direct and alternating current. The island's high-voltage infrastructure will bundle the wind farm export cables off the Princess Elisabeth Zone together whilst also serving as a hub for future interconnectors with Great Britain, the Nautilus interconnector and Denmark, the

TritonLink. It is important to note that this federal development plan has been taken into account in the CapEx plan for Belgium for the next 5 years.

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

You just mentioned TritonLink. The Danish government recently announced that they are moving away from their plans for an energy island to which the TritonLink would be connected, as you see here on the map. Chris, does this have any impact on the project?

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

Well, indeed, our colleagues of Energinet DK asked -- were asked by the government to revisit their plans and to see if a platform solution would make more sense. As you know, they had a much more extensive island concept than the one that we had. And so they have some problems to realize that plan. But if we look at the last discussion that we had with them, the government as well wants them to keep the current timing, meaning that the timing for our TritonLink will not be changed.

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

Okay. Thank you. The projects of the future in Belgium have been defined in the plan, but how will they be remunerated last year in June. The CREG fixed the return on equity for the next regulatory period that starts in January 2024. So Catherine, to what extent is -- is CREG prepared for a review like in Germany.

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

First element is that the regulatory framework was also set in a low interest rate environment. I will first remind you what was set back in June of last year. Based on all the parameters, we expect average net return on equity for the next Belgian regulatory period of around 5.7%, which is a slight decrease compared to the average we have on the current regulatory period of 6%. This rate was based at that time on the forward-looking risk free rate for the period '24, '27.

So Elia Transmission Belgium has started discussions with the CREG to demonstrate the recent evolution of the financial market expectations and to appreciate the needs of a revision of the regulated return. However, it's not clear yet if, when and how a potential revision could occur.

Additionally, I would like also to comment on the current status of the tariff proposal process in Belgium, like I did for Germany. For now, we're in the process of defining the tariffs for the period '24 to '27. In May, Elia has introduced a tariff proposal. In September, Elia is expecting to receive a project decision from the CREG in which the regulator will evaluate the tariff proposal. Following the project decision, Elia will make further adjustments if needed and subsequently resubmit the tariff proposal for further evaluation. The final tariff proposal is anticipated to be approved in November.

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

Okay. Thank you for this update. The last topic I would like to discuss is the progress made on the current infrastructure projects and let's first have a look at some of our achievements in Germany. During the first 6 months of this year, 50Hertz invested about EUR 500 million on grid infrastructure project, both on land and at sea. And one of the headlines was a groundbreaking ceremony at the Wolmirstedt substation near Magdeburg. The event marked first day of construction of the SuedOstLink's first converter station. There are 2 in total, and the Guest of Honor included Robert Habeck, the German Vice Chancellor and the Federal Minister for Economic Affairs and Climate Action.

(presentation)

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

Yes. The SuedOstLink will not include 2 converter stations, but four -- thank you for this update, Chris. So construction has finally begun of what will become one of the most important electricity highways in Germany and also in Europe. What makes this project so special?

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

Well. It's a very important step for us, Marleen because the SuedOstLink will become one of the most important North-South electricity highways in Germany. It will support the integration of increasing volumes of renewables into the system and transmit the green energy consumption centers in the South of the country, mainly the province of Berlin. The project will cover a distance of 540 kilometers and demonstrates that we're fully committed to the acceleration of the German energy vendor.

The SuedOstLink is 50Hertz's first onshore HVDC connection. It is also the company's first project to involve 525 kilovolts, the detail that probably only the engineers among us will be interested, but it's also with the total transmission capacity of 4 gigawatts. The project is a great example of how we at Elia Group are constantly applying the latest standards and using the latest technologies.

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

Indeed, an important highlight. Remarkable advancements have also been accomplished at sea and the following images captures the sail out of the Baltic Eagle Transmission Platform from the Port of Antwerp to its final destination in the Baltic Sea, the German Baltic Sea. Chris, what is the state of -- status of this project?

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

Well, 1 month after this leaving of the construction site in Hoboken, the Baltic Eagle Transmission Platform was installed on its foundation in the German Baltic Sea. In the meantime, 2 subsea cables have been successfully pulled on to the platform, 220 kV each and each 90 kilometers long. In late 2024, the platform will supply the German Electricity Grid with electricity from the Baltic Eagle wind farm, which comprises 50 wind turbines that are currently being constructed by Iberdrola.

We also made progress on another offshore wind project nearby in the Baltic Sea. Electricity has begun flowing into the 50Hertz grid from the Arcadis Ost 1 offshore wind farm. Most of the 27 wind turbines have been successfully connected to wind farm, a project of the Belgian wind developer, Parkwind, 247 -- 274 megawatts is due to the commission -- to be commissioned later this year.

Finally, 50Hertz has committed to ordering 2 offshore substations for the Gennaker wind farm. This offshore wind farm at the other side of the Rügen Island of 927 megawatts will be the largest in the German Baltics.

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

And it shows that the Baltic Sea holds significant potential for expanding offshore wind energy. In May, 50Hertz participated in the Baltic Offshore Wind Forum in Berlin organized by the German Federal Foreign Ministry. During the conference, 50Hertz and its counterparts from Estonia, Latvia and Lithuania signed a letter of intent to intensify their cooperation.

And then in June, Germany and Denmark announced the signing of an intergovernmental agreement relating to the Bornholm Energy Island project. And this creates the conditions for 50Hertz and its Danish counterpart Energinet to work on this innovative electricity hub in the Baltic Sea. And it involves hundreds of kilometers of DC cables on and offshore via the Bornholm Energy Island, at least 3 gigawatts of offshore wind power capacity will be made available to both countries energy markets.

Let's take a moment to hear a brief statement on this from Stefan Kapferer.

(presentation)

Stefan Kapferer - *Elia Group SA/NV - CEO of 50Hertz & Member of Executive Management Board*

Energy transition is a European project. And after the Ukraine war has started, we have seen some countries in the European Union renationalizing their perspective on the energy transition. So we're very happy that Germany, Denmark and Belgium are still convinced that the European energy transition can only realize together. So the intergovernmental agreement between Denmark and Germany about the Bornholm Energy Island is a big step forward and also the letter of intent between the Baltic TSOs and 50Hertz about a potential Baltic wind connector could become a relevant step for a green Europe.

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

Now, we move from Germany to Belgium. Let's take a look at the progress and great investments in Belgium in the past 6 months. EUR 300 million have been invested in the first half. Chris, which of these investments would you like to highlight in particular?

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

Well. I first would like to focus on the important progress that we're making as part of the reinforcement program of the so-called Belgium backbone, the existing 380-kilovolt high-voltage grid. That reinforcement program started already several years ago. Last year, we commissioned the Horta and Avelgem line that marked the launch of a first important access that links the Mercator substation via Horta and Avelgem to the Avelin substation in France. We're now focusing on the Central Eastern backbone. The reinforcement works for the Massenhoven, Meerhout, Van Eyck at Mercator and Bruegel access are currently ongoing with works expected to be fully completed in 2026. The upgrade of the 380 kV access between Gramme and Van Eyck began in February of this year, with those works expected to be fully completed in 2030.

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

And in March of this year, Elia signed the contract relating to the design and the construction of the Princess Elisabeth Energy Island for the foundations. The consortium consisting of DEME and Jan De Nul won the contract. Chris, what further steps have been taking for this project?

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

Well, we're in the final phase of the design. Meanwhile, DEME and Jan De Nul are preparing the construction yard in listing it where the caissons will be constructed. We hope to start there in December of this year. Meanwhile, we have launched most of the tender packages for the high-voltage infrastructure and cables. We accelerated the procurement process due to increasing pressures that we see on the suppliers' market, ensuring timely reservation of the necessary capacity.

Furthermore, we're working on the final details for the nature-inclusive design, along with a group of nature and conservation experts. We have been working on designing the island in such a way that will have positive effects on flora and fauna. We have defined the feasibility of proposals, and we'll share more information about it later this year.

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

Okay. Thank you, Chris, for this comprehensive presentation of the highlights in the first half year. It's time now for a deep dive into the midyear numbers, and we'll start with the figures of the group. So I would say, go ahead, Catherine.

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

Thanks, Marleen. And so as you probably read in the press release, Elia Group posted solid results across all segments over the first 6 months of this year.

Let's start with revenue. At group level, our revenues amount to EUR 1.9 billion, a 3.2% decrease compared to prior year. In Belgium, our revenue was positively impacted by a higher regulated net profit and higher depreciations linked to the growing asset base, but it was more than offset by lower net financial cost due to interest income on cash deposits and lower cost for ancillary services due to the drop in gas and electricity prices.

In Germany, the revenues decreased, mainly driven by the lower energy revenue due to the drop in energy prices. Then our EBIT increased compared to previous year, totaling EUR 336 million. This represents an increase of 13.5% and is driven by different elements. For Belgium, it was the result of a higher regulated net profit and lower depreciations of assets not covered by the tariffs. In Germany, the higher EBIT is mainly a result of higher investment remuneration, while the operational costs remained well under control. And finally, associates contributed to the group's EBIT for EUR 15 million, the contribution from the Nemo Link interconnector decreased despite its high availability rate as its revenues reached the cumulative cap.

The group's net profit increased by 7%, reaching close to EUR 200 million. This result was driven by the strong performance of all regulated assets with Germany contributing around 56%, ETB around 42% and Nemo Link 7% to the net result. The nonregulated activities contributed negatively to the result as we continue to incur higher costs for the expansion of international offshore activities. The net profit Elia share increased less pronounced, reaching EUR 162.5 million as it includes the higher interest expenses related to the hybrid securities.

Let's now discuss the net debt of Elia Group. At the end of June, we carried a net debt of around EUR 5.4 billion, reflecting a 21% increase compared to the end of last year. The increase is primarily attributed to Germany, where the EEG cash position decreased as a result from a drop in energy market prices. Excluding the EEG and similar mechanism, our net debt increased by approximately 5%. As I mentioned at the start of the presentation, Elia Group invested EUR 821 million over the first half of the year. Those investments were many funds by the cash flow from our operating activities. And additionally, the net debt position was also impacted by the higher funding costs following the increase in interest rates.

As a result of various debt capital market transactions discussed earlier, the average cost of debt has risen by 20 basis points to 1.9%. Currently, Elia Group's outstanding debt consists only of fixed rate debt or credit rating, as I said, by S&P remains BBB+ with a negative outlook.

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

That were the figures for the group. You have mentioned earlier that we had solid results in the 3 segments. Let's have a zoom in on the key drivers in Belgium, Catherine.

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

And I already explained earlier why the revenues decreased, so let us move straight to the net profit of EUR 83 million, up by 12% year-over-year. The key drivers were the following: firstly, the fair remuneration increased by EUR 3.9 million. This growth can be attributed to both the expansion of our asset base and a higher equity.

Secondly, the contribution from incentives has risen by EUR 6.2 million, indicating a robust operational performance. This was especially valid for the incentives for interconnection capacity and a timely completion of projects and for the influenceable cost.

Thirdly, the activation of issuance cost linked to ETB's green bonds, but covered by the tariffs under the embedded cost debt principle resulted in a positive impact of EUR 2.2 million. Moreover, we incurred the higher capitalized borrowing cost due to our increased level of assets under construction and a slight rise in average debt cost amounting to EUR 1 million. Lastly, last year results benefited from a one-off tariff compensation for financial costs associated with a capital increase.

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

You mentioned, Catherine, the growth of the ETB's asset base. You also mentioned the green bonds earlier this year -- issued earlier this year. Could you provide some insights on the overall financial position of ETB?

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

Starting in '23, Elia entered the debt capital market and issued it's first ever EUR 500 million green bonds to finance its eligible green projects. In anticipation of the increasing interest rate environment, Elia entered into interest rate swaps in '22, ensuring that the benefits are passed on to consumers. As a result, this issuance had a marginal impact on the average cost of debt, which increased with 10 basis points to 2%. It's worth noting that Elia maintains a well-balanced maturity profile with all outstanding debts carrying a fixed coupon. The company's liquidity position remains robust and both the sustainable and revolving credit facility in commercial paper were fully undrawn at the end of June. ETB's credit rating was reconfirmed by S&P. It stood at BBB+ with a stable outlook.

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

Okay. That was for Belgium. Let's now turn to Germany. What were the drivers behind 50Hertz performance over the last year, Catherine?

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

Yes. The -- first, I will remind the net profit, which came in at EUR 113 million. It's an increase of 14% compared to last 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 35 million. At the same time, depreciation cost increased by EUR 11 million, both were impacted by the partial commissioning of Ostwind 2 in the late '22 and the group progress on the onshore investment.

Secondly, onshore OpEx and other costs decreased by almost EUR 6 million. So despite the growth of the activities, the onshore OpEx cost remains well under control. Finally, the financial results decreased by almost EUR 16 million.

Let us now look at 50Hertz financial position. The total equity of 50Hertz decreased by EUR 183 million to around EUR 2 billion. This drop was entirely due to the hedge reserves. 50Hertz supplies hedge accounting for the purpose of reducing the risk of fluctuations in the expected amount of grid losses. The fair value of this contract dropped leading to a negative hedge reserve of EUR 74 million due to a strong decrease in energy prices.

Let me remind you that cost for grid losses are almost fully passed through to the tariffs and therefore, the fair value of further contract has no relevance for the current and future profitability of the companies and is excluded from our return on equity guidance.

In terms of liquidity, the liquidity position remains strong at EUR 4.3 billion. As per half year, the EEG and similar mechanism, cash position amounts to EUR 2.4 billion. Since the beginning of the year, the EEG cash position is decreasing, driven by the lower energy prices. Based on current estimates, we anticipate to end the year with an EEG position of around EUR 1.2 billion.

As I mentioned earlier, in view of the upcoming investments, and aligned with our ambitions regarding sustainable financing, the liquidity of Eurogrid was further strengthened by securing a EUR 600 million green bond. The funds for this first green loan are provided by several banks and refinanced under KfW's climate protection programme for company. As of June, EUR 120 million was drawn while the other overdraft and revolving facility remain unused. Following the insurance of EUR 650 million bond in April, the average cost of debt increased to 1.8%. The maturity profile remains balanced with a weighted debt duration of 6.7 years. The rating of Eurogrid remains unchanged at BBB+ with a negative outlook.

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

In addition to its regulated activities in Belgium and Germany, the Elia Group is also involved in operating Nemo Link and engaging in various nonregulated activities. Catherine, can you provide some insights on how those -- this third segment has contributed to the results?

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

Yes. Our third segment had a positive contribution of EUR 4 million on the group's net result. However, this contribution was lower compared to previous periods due to first Nemo Link reaching the cap. And secondly, increased expenses incurred in expanding our international offshore activities through WindGrid.

If we look at the details of the year-over-year changes, we see the following. Firstly, the group's results received a EUR 13.3 million contribution from Nemo Link. It's EUR 9.6 million less than last year. This decline can be entirely attributed to Nemo Link reaching the cumulative cap for the 5-year assessment while the prior year's result partially benefited from lower performance during the years '19 to '21.

Additionally, the operational availability of the interconnector remained remarkably high at 98% towards the first half of the year. Apart from Nemo Link, our nonregulated activities results were influenced by increased cost due to the expansion of our offshore activities through WindGrid. However, the holding cost will lower, thanks to higher interest income from cash deposits.

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

And finally, we have to cover the outlook for this year. And that's your last slide of the day, Catherine.

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

Yes. And I can say that we're confident in our ability to achieve our goal for this year. And so aiming for an adjusted return on equity ranging from 6% to 7%. Like in the past, this guidance is included the costs linked to our hybrid securities.

Now when we look at the different segments for Belgium, we continue to upload our objective of achieving a return on equity within the range of 5% to 6%. In terms of CapEx, we plan to invest around EUR 700 million for the full year. In Germany, we remain committed to a goal of achieving a return on equity between 8% to 10%. However, we have revised our investment upwards from EUR 1.5 billion to EUR 1.7 billion. This increase is primarily driven by the need to secure future capacities in the supplier market.

Regarding the nonregulated segment, Nemo Link, we reconfirm our outlook as well, which anticipates a loss of up to EUR 5 million. Considering the availability of the interconnector and revenues exceeding the cumulative cap, we expect that Nemo Link will contribute around EUR 25 million. I want to add that this guidance does not consider any potential M&A transactions as usual.

And on another note, Marleen, I'm delighted to extend an invitation to our second Capital Market Day, taking place on the eighth of December. This event will be conducted virtually, providing, I think, an excellent opportunity to update you on all our strategic growth pillars and share insights on the latest regulatory developments. We look forward to your participation.

And now I will hand it back to you, Marleen and Chris to conclude today's presentation, with I suppose some closing remarks.

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

Indeed. Catherine and Chris, I would like to share with you some final thoughts. What will be the focus points for Elia Group after the summer break?

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

Well. It's obvious -- of course, the most important focus point for the next 6 months will be on fair return. In the last 18 months, the financial markets have completely changed, and this current environment is characterized by increasing interest rates that needs a prompt consideration of adjustment of the fair return both in Belgium and Germany.

If Elia would fail to raise sufficient capital, we as society may face a deficiency in essential infrastructure. Such a scenario would impact the speed of the progress of the energy transition and probably even more importantly, it would reduce the resilience of our industry and also have a negative impact on our welfare. Second point of focus is the capacity of our supply chain that is under pressure due to the extensive investments by European TSOs and other industries. We see today already that delivery times are increasing and there is limited room for negotiations. Suppliers selectively choose tender projects and customers to derisk their offers.

Elia Group is taking measures to mitigate these circumstances, including building long-term strategic partnerships, reserving production capacity and implementing simplified tender processes. This is all to avoid that the execution of investment plans could be delayed.

And finally, something that you know that I'm personally looking forward to what is the publication of our annual foresight study this year, it is on putting flexibility to work. This time, we're approaching this study in a very different way since we're -- have been collaborating with students from different universities in Belgium and Germany. We recently organized a student challenge, both in Brussels and Berlin, the students were asked to identify the current barriers for flexible consumption and to set up a start-up company that comes with ideas to put flexibility at work. On top of the student challenges, several use cases are being developed that will also be included in our paper that will be published third week of November.

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

Okay. We're clearly enthusiastic about this challenge. While we prepare the Q&A session, we have a few interviews with some of the students involved to share with you.

(presentation)

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

And Elia Group study on flexibility, putting flexibility to work. That will be the title will be presented on Tuesday, the 21st of November in the late afternoon during a live streamed event and you're most welcome to attend this live in the studio.

For now, we have shared a lot of information with you today. I suggest we now move on to the Q&A session. 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*

Thank you, Marleen. I propose to start Q&A, and I think maybe Juan Rodriguez from Kepler can kick off.

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

I have a couple of questions from my side. The first one is on the regulatory review that you're currently engaged. As you signaled today at 5.85% -- 5.87% proposal. In Germany, I want to double check with you, if this will imply both things equal that means that your incentives are maintained and the cost efficiencies as well. We'll put the total return on equity on the German side within the 8.5% to 10.5% range. If it is correct, and will this be in your view, a fair remuneration for your German activities? And similarly for Belgium, it is currently at 5.7%. What will be, in your view, a fair remuneration for these activities under the current discussion. The first one.

The second one is I want to double check with you because you just signaled that the RAB target for the end of the year has been maintained EUR 12.3 billion, but you slightly revised upwards your CapEx for the year. So can you please provide more color on the moving parts on this adjustment?

And the third one that I have is on end of the year guidance, you already posted a 3.58% adjusted return on equity at the first half results. And all things equal will put the group towards the upper range of the 6% to 7% guidance if we translate into the full year results. Should we expect some additional adjustments or a weaker performance in H2 in that sense?

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

So I will take, I think, all your question. So on the first question, Juan, regarding the adjustment of the regulatory return in Germany. The figures that you came with are too optimistic. Like I mentioned during the presentation until now what we have announced as a guidance for the period 2024 to 2028 in Germany was between 7% to 9%. So indeed, before that, we knew possible modifications in the regulatory return in Germany.

Those modifications have still to be confirmed, but what we have on the table today is an increase of the fair return for new assets. So the assets that will be qualified as new as from 2024 -- the new assets as from 2024 for the onshore activities and those assets, which are qualified under the capital cost adjustment model. So like I mentioned in the presentation, it's a very small part of the total asset of the company. And today, if we apply the increased return on the portion of those assets, it would lead to an increase of 20 basis points, not more than the 20 basis points. There maybe more to come in terms of offshore. There might be more to come or not after the consultation. That's something that we will have to follow up.

But based on the information we have today and assuming that all other elements would remain equal, it would lead to a 20 basis point increase in the guidance that we have announced. So nothing to change basically, the range between 7% to 9%. That's one.

Secondly, in terms of RAB that's something on which we need to come back. So indeed, there was a slight increase of the CapEx in Germany. And we will come back to you with the half figures. You have a point there.

And then on the last question that you mentioned, whether we expect to end in the upper range of the guidance. Not -- we don't expect that, so no. The reality is that some of the elements contributing positively to the results are front loaded. Small example, interest rates in the third segment at the holding level. You have seen in the first half a positive impact of interest on cash. This cash we need to pay back the hybrid securities in September, the EUR 700 million hybrid security that we have in September. And so we have a nice contribution coming from interest in the first half, but we will not see any more the same type of contribution in the second half of the year.

Second example in Germany, you saw probably that the OpEx are well under control in the first half of the year. If you look historically at the transmission in Germany, you will see that usually in the second half of the year, there are higher OpEx than in the first half of the year, and that's also something that we expect in 2023 for Germany. So in total, no, we don't expect based on the information we have today to end in the upper range of the guidance because of the fact that some results and positive results are front-loaded in our 2023 first half year results.

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

I now propose to give the floor to Piotr Dzieciolowski from Citi. So Piotr, do you have any additional questions that are not yet covered by Juan.

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

I just wanted to question the 20 basis points uplift you expect in the Germany following the review. How much of the assets by the end of the regulatory period will be based on the new regulatory framework versus the old regulatory framework because I understand the uplift is roughly

200 basis points and you're going to spend more over this period than your entire RAB at the moment or similar to. So based on my calculation, the uplifts could be more in the range of, I don't know, 100 basis points other than 20. So can you please elaborate on this impact of this increased returns?

And second question, I would have -- just I would stick to 2 questions. What is your expectations towards the remuneration in the Belgium? I know you are very early in the discussion process part, I would be keen to understand how much of an uplift you expect there.

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

Okay. So in terms of impact, maybe it's helpful to remind you that there are 4 categories of investment in Germany. There are the investments falling into the base year regime, there are -- the onshore, there are the investment falling into the investments measure regime, also onshore. You have the CCA onshore and finally you have the offshore investment.

The consultation that has been published by the German regulator only addressed the category of the onshore CCA investment and more specifically, the new onshore CCA investment. And that's probably the reason why you might have had higher computation after the first element of publication because you were considering the entirety of the new investment and not necessarily and specifically the ones linked to the CCA.

Second element, you are right to say that the figures that we're giving, so the 20 basis points is an average over the 5 years period. We will have years after years, more new investments, more investment qualification being new. And it means that what we can expect is in the beginning of the period, a lower contribution, but at the end of the period, a higher contribution. So there will be indeed a timing impact based on the publication of the increased return like done today by Germany.

Lastly, for Belgium, it's very difficult to say anything relevant at this moment. Like Chris mentioned, we are engaged into talks and discussions with the Belgian regulator, but it's premature to mention anything. We don't know yet if something will be allocated or will be given by the CREG. And if something is -- would be given, what would be the exact mechanism. That's something we are currently discussing. We expect to have more visibility during Q3 and more specifically at the end of Q3. And of course, we will continue to keep you updated as soon as we can say something on possible outcome on those discussions.

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

I propose now to move on to KBC, where we have Wim Lewi. So Wim, please go ahead.

Wim Lewi - *KBC Securities NV, Research Division - Head of Research*

I have a follow-on on this German regulator question, and thanks for explaining that split. Now I was a bit surprised to see that the offshore consultation will be completed or will start only in October. So my question is on this is really, first, why do we think that's been separated?

And do you think that can be finished these consultations and this new calculation before the year-end and also because your -- in your Capital Markets Day at the beginning of December. So what's your view on this? Why is it separated? Or do you expect this to be a similar formula as is done with the onshore and then just still in different variables or maybe just exactly the same format. What are your thoughts on that?

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

So in terms of timing, the consultation is indeed announced in October by BNetzA. I know that the 4 TSOs in Germany are trying to have some information published by BNetzA a little bit earlier. We expect indeed that this consultation will be finished by the end of the year. So we expect indeed that for the tariff settings of 2024, all the new elements onshore/offshore will be included in terms of what could it be as a mechanism or even as, let's say, percentage of possible increase. Sorry, but once again, it's too early to say. We really need to wait until the moment that regulators come with something official to be in a position to make any comments on those ones. So I will ask you a little bit more patience until October at least for offshore.

Wim Lewi - *KBC Securities NV, Research Division - Head of Research*

Okay. If I may, then a follow-up on WindGrid. And there you also mentioned that there were additional costs about EUR 2.8 million. Can you give a little bit of qualification what these costs are about? Is it investing in new people? Is it start-up costs? And really, what's the nature of those costs? Are they one-off or more recurrent kinds? And then lastly on that, when do you think you can kind of give more on the revenue side from the pipeline when we can expect some news on that front?

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

Yes. So in WindGrid is a combination of 2 things. On the one hand is, of course, that we are in the phase of the buildup of the team. To give an example, we recruited 2 people specifically focused in the U.S., on the U.S. market. As you know, WindGrid is focusing in a first instance, both on European markets outside of the Belgian and the German regulated space and also at the U.S. side, and we thought it was a good moment as well to reinforce the team in the U.S. to make sure that we can participate to a number of upcoming tenders that we have in the Northeast side of the U.S., which is the focus point that we have today.

And as you know, we have already made 2 partnerships, one with PPL and one with NextEra in the U.S. And as well, we are looking at a couple of specific opportunities today in -- mainly in the Irish Sea and in the Baltic Sea that we're looking for. The other ones are, let's say, early stage devEx cost that we have in a number of projects that we are assessing. It's early stage, which at the moment that we try to assess if we can have a valid origination of those projects that's mainly focused on the project that we have seen in the Irish Sea and in the Baltic Sea.

And secondly, we are -- we have responded to a consultation around a -- preconsultation round in the state of New England, where we expect that there will be then the real consultation on a transmission-only tender later this year, and we expect the same. We have not yet spent a lot of time on that, but we expect the same also for the state of New York somewhere in the early part of next year that they will also have a consultation on a transmission-only tender.

That's more or less where you see that the costs are going today. And so if you look at what is the expectation, if we look at the pipeline that is currently there and the maturity of that pipeline compared to FID and the real moment of investments, you should further look at the end of the decade before we start to have really, let's say, commissioned assets that could be part of that.

So we think that investment will be starting, let's say, likely not in the coming 2 to 3 years. And then we will have a, let's say, a development phase and then you will have a phase that we can then either sell those assets, either monetize them for a while. So that is a little bit what you see in that pipeline. It looks like, let's say, a very positive and healthy pipeline. We remain very, let's say, optimistic about what WindGrid is doing, and we see as well that we have a lot of traction both in the U.S. and in Europe in the specific places that I mentioned because there's a lot of need of capabilities and Elia has developed those capabilities over the years.

But there's a little bit, of course, like development time is there as it should be there. So we derisked those projects in the substantial steps in the stage process as we've always done that. And so that leads then to the time lines that we just proposed to you.

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

Then I propose to move on to Mafalda Pombeiro. She's representing Goldman Sachs.

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

I have two questions on my end because I believe most of them were already answered. The first one is still on the Belgium review, potential review. I know you probably can't comment or it's a bit too early to comment on what you could get from that potential negotiation, but if you could comment very high level, what would be your potential demand? Or what do you think could be improved versus the status quo, that would be great.

The second one would be on the investments for this year. So as far as I understood, we invested so far a bit more than EUR 800 million, and there is a target of EUR 2.4 billion for the whole year. So I think there will be a heavy CapEx second half. So is this normal seasonal -- related to the seasonality of the projects, or is this driven by the constraints Chris were mentioning during the presentation, namely in terms of the supply chain? And any comment that you could provide in terms of the net debt evolution, excluding EEG towards the end of the year would be great as well.

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

So maybe on the first one, so about return on equity in Belgium. Look, what we see in Belgium is that we can expect higher investments in the next years, the next 5 years, which are absolutely necessary to maintain the high level of security that we have on the grid, the high reliability on the one hand; and second, for delivering on the energy transition.

So it's not only that the interest rates have been set at the moment where the environment was different than what we have today. It's also that the magnitude of funding that you will need, both debt and equity in the future will be higher than what we have seen in the past. So that's the context in which we are.

And those are the elements we are currently discussing with the regulator. To give any indication on the possible outcome is -- I'm sorry to say, once again, is really premature. That's something that we can't do at this stage. We really need to wait until the moment that CREG would come with any kind of signal and information towards the market.

On the second element in terms of investment, if you would look at historical trends, you will see year after year the same kind of trends, namely that investments are more back loaded than front loaded. I commented earlier on our results, OpEx and interest impact on the net result. For the CapEx, the trend goes in the opposite direction. So usually, we have much less in the beginning of the year, and then we have more at the end of the year.

It's linked to a number of factors, operational factors, winter conditions in the beginning of the period, especially in Germany. But it's also linked, you are right, to a number of capacity slots that we want to reserve at suppliers and so a number of prepayments that we will do and more at the end of the year than at the beginning of the year. So we are really confident in our ability to deliver on the total guidance for the CapEx. And the trends that you are currently seeing is something that you will see in the past as well.

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

Then I'm also very happy to have Exane in the call, Harry Wyburd.

Harry Peter Wyburd - *BNP Paribas Exane, Research Division - Analyst*

So thanks very much for taking a question from a new face. I appreciate we've had a lot of good questions already. So I'll just keep two relatively short ones. So on -- I'm sorry to come back to regulation again. So on Germany, you mentioned in the prepared remarks that you thought it was important that you got higher remuneration on the existing asset base as well as new investments.

So I just wanted to check whether you see any chance of getting an update or a change to the remuneration on the existing asset base in this regulatory cycle. So by the end of this year, or was that something that would have to wait until the next regulatory cycle in Germany?

And then second one is sort of bigger picture, I guess. Looking internationally, some of the opportunities you mentioned just now on WindGrid, I guess, we're looking quite focused here on Germany and Belgium and there's a massive CapEx opportunity and if you extrapolate that globally, it's even bigger. So I wondered, do you have in mind an amount of capital that you'd be willing to allocate to international activities over time?

Or maybe sort of what you see as the addressable market. Just give us a sense as to how material that could be towards the end of the decade for you internationally? And then how would you look at returns in international investments when you were deploying your own capital? Would you look for something that's just better than what you're getting domestically in Germany or Belgium, would you look for kind of IRR, WACC spread, something like the offshore wind developers target? I'm just interested in how you think about returns and value creation there.

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

Chris, would you like to take on regulation? Because I answered maybe a number of times, I'm happy to continue to do but do you think...

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

Yes. I mean you take maybe regulation, I will then comment on the, let's say, the WindGrid side, if you're okay with that?

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

Okay. So on regulation, so our view is, of course, that in order to fund properly the assets that we have, the return level needs to address both existing and new assets. But at the end, we will look at the return, let's say, in total, apply to the RAB. So we believe it would be logical to have an increase on the existing assets and the new assets and not only on the new asset. And that's indeed one of the points we are putting on the table in our discussion with the regulator, whether we will be successful in this discussion is something that we will know later and by the end of the year.

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

Well, and then I will comment on the WindGrid situation. So what we see is the market is really speeding up. So we see that both in Europe, in other parts of the Baltic Sea. We see that in the Irish Sea. We see that also in the North Sea. Unfortunately, in the North Sea -- well, unfortunately, in the North Sea, we see that there are a little bit less opportunities because we have already a very capable existing other TSOs that are operating in the offshore space.

So there's little space left then for somebody that is to say, not coming from the regulated side directly. And so that's the same case for WindGrid. So we're more focused on that side. In the U.S. side, we see as well that after, of course, the hit that we saw in that market by the inflation that everybody was a little bit taken by surprise and we saw that wind farms are paying the price for that.

We see now a correction and that we see that IRRs and projects are again going into the direction of double-digit plus kind of returns. So above what we see and that's, of course, also the intention of WindGrid that we can benefit from places where we have a return which is higher than the current average return that we have as a group. Otherwise, it would not make a lot of sense to go for that expansion.

Now the other thing, how much can we expose to that in terms of CapEx. I think that's a real question that we are working on today because we had made some, let's say, soft statements about that before, but that was, of course, before that we saw the huge increase in the organic side of the business. And I think that we have now to take into consideration what is the kind of capacity that we can have on our balance sheet to finance those different CapEx streams.

We have, of course, made a commitment in the regulated space, and we will fulfill that commitment if they give us the fair return that we need for that. So that's a commitment that we made. And then we can see what the headroom is that we have for further investments outside of that space.

And so that is with those, let's say, acceleration that we see. Of course, the opportunity becomes bigger at the outside, but also the stretch on our balance sheet by the existing business has become greater. And so that's something that we will have to rebalance and probably we will have some more comments on that later in the year when we have the Capital Markets Day.

Harry Peter Wyburd - *BNP Paribas Exane, Research Division - Analyst*

That's very clear. And just maybe a very small follow-up. You mentioned the double-digit IRRs. Is that an equity IRR or an asset IRR?

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

That's an asset IRR. But if we look at the equity IRR that we would have, there are still, let's say, substantially higher than what we see in Europe today.

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

I see that Piotr still has a follow-up question, I believe. So I would say, Piotr, please go ahead.

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

Yes, I have 2 or 3 follow-up questions. Thank you for the opportunity to ask them. So firstly, I wanted to ask you about your capital position. How much, based on your calculation, you need equity to finance your current investment program? And how much can you wait until you have to do another rights issue essentially, is it based on your calculation, is it going to come in '24, '25, '26? Or can you please elaborate on this financing front.

The other question I had was, can you please say if you see any influence or really across from the TenneT negotiation with the German government into your position on 50Hertz, would an idea of disposing the asset come to you? Or how would you assess this situation in your context?

And finally, I mean we talk a lot about the offshore cost inflation. Can you say roughly how much of a cost inflation for the offshore asset connections you've seen over the last 2, 3 years?

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

I will take the first, maybe on the capital. And so the capital increase that might be expected or not. So first element, you will remember that we said at the beginning of the year, and we can confirm that we don't see any need of additional equity for funding the investment program we have in Belgium, we have in Germany in 2023. So that's something that we clearly not have on the agenda.

Second, in terms of equity raise that might be necessary in, let's say, the longer term, based on the current investment plans that we have in Germany and that we have in Belgium, it's not that we see an urgent need to do an equity raise in the next 12 months. Of course, we can be opportunistic at certain moment of the time depending on market conditions and evolution of the market.

But in terms of, let's say, funding needs, and you know that we fund based on gearing ratios, the regulated gearing ratio for Belgium and 25% equity, 75% debt at German level. Based on, let's say, evolution of those ratios and current investment plans that we have, we still -- with the capital increase that we did last year, we still have some buffer. So it will mostly depend on market circumstances then on the one hand.

Second, of course, outcome of the regulatory discussions. And depending on possible revision that will be done, it will impact or not the cash flow that we have at level of Belgium and at level of Germany, and so it could also have an impact on the possible timing and success of the operation.

And so that's the reason why in terms of amount and in terms of timing, we are not more precise for the time being. And that's for sure something on which we will comment in December during the Capital Markets Day giving much more precise indications about the financial means that will be requested over not only then 2024, but also the longer period and the longer regulatory frameworks.

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

Then maybe on the second question, as we have mentioned in previous calls, this is, of course, a situation that we monitor closely because any move in ownership could have an impact on the 50Hertz situation. And so we have, of course, the benefit that through our partnership with KfW, we have a quite open dialogue with the government on potential consequences. And what we see today is that they are relatively happy with the way how 50Hertz is run and the way how they can have transparency on the operations as well on the role that Elia Group plays into making sure that the energy vendor gets delivered.

So in that perspective, we feel quite comfortable that we are in a position that at least when something would happen, there will be a dialogue in which we can participate. And there seems to be no urgency or at least less urgency from the government to look at a fast consolidation of the TSOs. They are now focused on making the deal happen. And that, of course, has been quite influenced by the fact that the Dutch government has changed into a government of current affairs, meaning actually that all negotiations as far as we know, has been stopped, waiting for the list of topics on which the current government in currents affairs can work on and that need to be voted by the Dutch Parliament somewhere in the second week of September.

And so we wait is -- the TenneT deal is on the list, yes. No, it will have an impact on the way, of course, how that negotiation will go. We are not in the driver seat of that negotiation, and it's very clear that the negotiation topic is a 100% carve-out of TenneT Germany and taken over in a first step by KfW. There are some discussions today about what could be a second step of replacement of that capital, but they're very immature at this point of time.

But as said, like it's not something that we would worry too much about today because we think that we're in a relatively okay position. Maybe last thing to add in our press conference in Germany, I stated the official position of the group towards this deal. And so it's very clear that Elia is committed to its relevance in the German market.

And so that means that we will defend our position or look at potential opportunities that a shift in ownership will bring, and then we will evaluate that at due time and come back to the information that will follow out of that, but it's too early now, given the fact that any negotiation around the TenneT deal has been stopped and is waiting for this parliamentary discussion in early September.

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

I think that we had a very interactive Q&A.

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

Still sorry to interrupt you. I realize that I forgot to answer one question that was raised on expected evolution of the net debt, sorry for that. But looking at all the questions that were raised, that's one I skipped. And so to give a quick answer on this one. And if I remember well, the question was relating to a net debt position, excluding EEG, which makes it much easier to answer because you know that on EEG, we might have indeed some kind of fluctuations.

And the answer is that we don't expect, let's say, material changes on the net debt by the end of the year compared to what we have today. We will have, let's say, some cash movement, but not something to materially impact the position of the net debt. compared to where we are at June.

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

Thank you, Catherine, for this additional clarification on the question asked by Mafalda. Then I think we can now close the Q&A and I wish you all a very nice afternoon.

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

Thank you, Yannick. Indeed, if there are no further questions, I suggest that we bring this presentation to a close. Thank you, Yannick, Chris, Catherine, for your contribution. Thank you also to Stéphanie Luyten working behind the scenes and the whole technical theme. A recording of today's presentation, the slides and the script will be made available online later today. Thank you for joining us, and enjoy the summer.
