ScopeHamburg

Issuer Rating

Elia Group SA / NV		21 April 2022	A-
		Issuer rating	
		Outlook	stable
Industry	Electricity transmission system operation (TSO) in Belgium and Germany	2021 Revenue	€ 2.7bn
		2021 Employees	ca. 2,880

BUSINESS RISK: low
FINANCIAL RISK: moderate/slightly increased
→ ANCHOR RATING: BBB → Modification 1: Operational risks → STAND-ALONE RATING: BBB → Modification 2: External influences → ISSUER RATING: A-

BUSINESS RISK	low

- Secured market position due to very high barriers to market entry as a public utility with nationally and regionally diversified monopolies
- Ensuring transmission system stability in central Europe via grid expansion
- Growing importance in the context of (supra)national renewable energy integration
- Risks from adverse changes in regulatory frameworks and (European) energy policies

OPERATIONAL RISKS	- 0

- We believe that the operational risk profile is consistent with the anchor rating (no modification)

FINANCIAL RISK	moderate/slightly increased

- Robust cash flows, recovery of costs and adequate capital returns
- Weakly satisfactory deleveraging potential over the medium term
- Good financial flexibility

EXTERNAL INFLUENCES	+ 2

- High likelihood of extraordinary governmental support due to major municipal shareholder Publi-T SCRL ownership, high degree of (supra)national public importance and overall high sovereign credit qualities of Belgium and Germany

Key financial ratios *	2019act	2020act	2021act	2022e	2023e	2024e
EBITDA margin (%)	42.6	43.7	36.6	40.8	45.9	46.8
ROCE (%)	5.9	5.3	5.7	5.0	4.5	3.8
Equity-to-total assets ratio (%)	26.1	26.2	23.2	26.9	28.7	33.6
Leverage (%)	62.7	66.0	56.1	57.1	64.1	61.7
Total liabilities / EBITDA	10.7	10.2	13.6	12.1	10.4	9.7
Net debt / EBITDA	6.4	7.1	5.2	5.9	7.5	7.9
EBIT interest coverage	3.5	3.7	4.4	4.2	4.6	4.7
EBITDA interest coverage	6.0	6.4	8.3	8.1	8.7	9.4

* adjusted on the basis of Scope Hamburg's analytical principles

Rating Rationale

Scope Hamburg GmbH affirms the A- rating of Elia Group SA / NV. The rating outlook is stable.

Low business risks due to territorial monopolies

We assess the business risks for Elia Group as low. Rating strengths include Elia Group's regional monopolies in Belgium and Germany and its position as a national public utility and transmission system operator with own infrastructure assets and government licenses. Elia Group's growing (supra)national importance to integrate renewable energy prosumers and its high focus on investment activities to upgrade the grid and to expand supranational transmission lines across Northwest- and Central Europe ensures, in our opinion, an improvement in grid stability and the mitigation of power grid blackouts over the long term. Furthermore we believe, that regulatory grid development plans, incentive programs, the rollout of smart grids, electro-mobility and power to hydrogen expansions are likely to accelerate the achievement of these targets. In this context, we consider Elia Group as well prepared to provide new digital solutions for the grid-based demand side or peak-load and network management services. Nevertheless some downside risks in relation to the prevailing European economic recession, supply chain disruptions due to geopolitical or Covid-19 pandemic risks or structural changes may remain in our opinion. These include grid instabilities, interconnector technology and acquisition risks or greater EU deregulation arising from adverse changes in energy policies or regulatory frameworks.

Moderate to slightly increased financial risks thanks to secured cash flows and good financial flexibility despite rising debt

We assess the Elia Group's financial risks as moderate to slightly increased. Rating strengths include Elia Group's sustained sufficient earning potential and operating cash flows, the legally protected ability to recover regulatory and non-regulatory costs and adequately regulated capital returns. Overall, the increased investment budgets as well as operate and interest cost coverage prospects appear ambitious to us. Thanks to its preferred access to funding from public and municipal shareholders and good access to capital markets we assess Elia Group's financial flexibility as good. Elia Group's currently good liquidity position is backed by high cash reserves through non-interest-bearing federal grants to cover EEG deficits and positive EEG cash flows resulting from the high energy market prices in the short term as well as unutilised credit facilities. However, we expect that its ability to deleverage will significantly decrease looking forward. This is mainly due to Elia Group's ongoing needs to fund large growth investments.

Modification to the anchor rating due to implied governmental support: +2 notches

We believe the operational risks are consistent with the anchor rating. Due to its government-related status we adjust Elia Group's stand-alone rating (BBB) by two notches to A- representing our expectation for a high likelihood of extraordinary government support in situations of financial distress. The underlying factors are a combination of the generally high importance of Elia Group's public utility role for Belgium and Germany, the strong link to Belgian municipalities, and the overall high (sub-)sovereign credit quality of Belgium, Germany and the Belgium provinces and municipalities.

Upgrade / Downgrade Factors

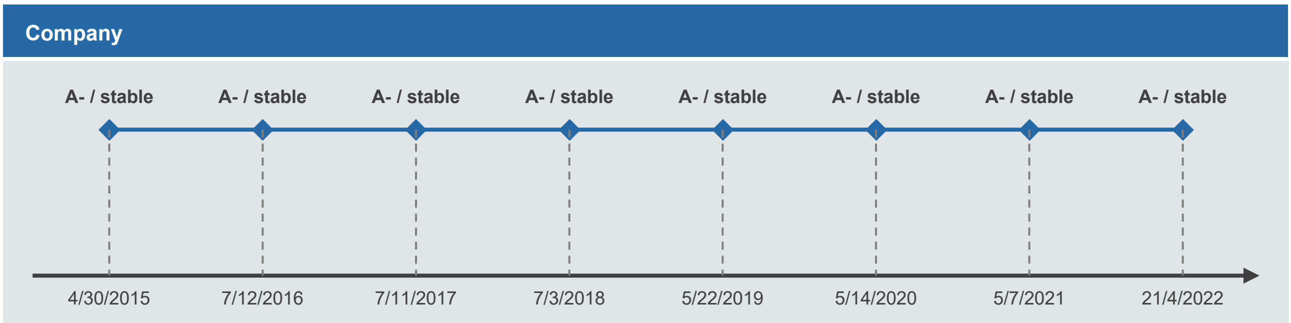
Factors that could lead to an Upgrade

- Exceptional improvements of the cash flows, capital returns and deleveraging potential and credit metrics with a substantial impact on the stand-alone credit profile on a sustained basis (e.g. net debt / EBITDA < 5.0x)
- Corporate growth by regulated regional diversification

Factors that could lead to a Downgrade

- Sustainable decrease of sovereign credit quality of Belgium
- Declining cash flows and inadequate capital returns as a result of adverse changes to European energy policies or regulatory frameworks
- Sustainable deterioration of the deleveraging potential as a result of accelerated investments (net Debt / EBITDA > 8.0x)
- Sustainable decrease in financial flexibility due to adverse changes in corporate dividend policy or restricted access to funding

Rating History



Company

Rated entity: Elia Group headquartered in Brussels/Belgium and Berlin/Germany

Elia Group SA / NV ("Elia" or "Elia Group") is the rated entity and holding company for a group of companies engaged in regulated electricity transmission system operations (TSO) supplying 30 million end users with electricity in Belgium and Germany. In total 51.86% of Elia's shares are freely floated, and 48.14% are held by Belgian municipalities and inter-municipal companies (thereof 44.82% through Publi-T SCRL). The Belgian regulated assets are being held indirectly by the TSO subsidiary Elia Transmission Belgium ("ETB") via Elia Asset SA / NV (99.99%). ETB is also engaged in other regulated activities such as the 50% joint venture Nemo Link Ltd. (net profit € 47m, Elia Group € 309.0m after remuneration of hybrid securities in 2021), which interconnects the UK and Belgium (transfer capacity 6,065 GWh) with a fixed 25-year concession, and other minority participations.

Nemo Link Ltd.: Long-term licence, regulated

Non-regulated activities

The non-regulated activities of Elia Group mainly comprise financing activities (e.g. € 700m hybrid and € 300m senior acquisition loans for the 20% stake in Eurogrid GmbH and the provision of holding services for ETB and Eurogrid International SA / NV with its subsidiary Eurogrid GmbH (German TSO "50Hertz" GmbH). Elia Group also provides non-regulated digital services of Re.Alto-Energy BV / SRL, which built a platform to facilitate users to exchange energy data. Furthermore Elia Group provides non-regulated added value services such as international consulting and engineering activities for TSOs, regulators and public authorities ("Elia Grid International SA / NV (EGI)") as well as the development of large-scale investments in offshore electricity networks in Europe and beyond ("WindGrid GmbH") in order to achieve the EU targets to quadruple offshore wind capacity by 2030.

ETB: Regulated long-term Licences and national monopoly in Belgium

In Belgium, ETB holds a licence to operate the national (extra-)high-voltage transmission system (30-70kV, 110-400 kV; 8,896 km; renewed 2019 for 20 years). Moreover, 94% of the regional high voltage transmission systems (30-70 kV) are being operated by ETB. ETB accelerates energy transition by interconnecting Energy Island "Princess Elisabeth zone" (3.5 GW) with Denmark and Great Britain. With a workforce of around 1,491 employees, ETB generated 40% (€ 1,009.8m) of Elia Group's revenues in 2021 (excluding net income from settlement mechanism), 43% of the corresponding operating profit (EBITDA € 432.2m; EBITDA margin 42.8%), net profit € 131.0m and 31% of the capital expenditure (€ 376.7m). The regulated asset base (RAB; excluding Nemo Link) amounted to € 5.4bn.

50Hertz: TSO with regulated regional monopoly in parts of Germany

In Germany, 50Hertz Transmission GmbH operates 10,325 km of electricity transmission lines (nearly 30% of the German transmission system). Similar to its German peers (Amprion GmbH, Tennet TSO GmbH, TransnetBW GmbH) 50 Hertz is operating a territorial monopoly representing the federal states of Eastern Germany, Berlin and Hamburg. Furthermore, 50Hertz plays an important role in the challenging distribution of renewable energy (2021 56.1% of energy consumption) as part of the energy transition (SuedOstLInk+ via multi-terminal hub to interconnect offshore wind farms in the North Sea and Bornholm energy island with Denmark and via Hansa Power Bridge with Sweden in the Baltic Sea). With an annual average workforce of 1,387 employees, 50Hertz generated 59% (€ 1,569.9m) of Elia Group's sustainable revenues in 2021, 53% of the corresponding operating profit (EBITDA € 534.0m; EBITDA margin: 41.5%), net profit € 165.4m and 69% of the capital expenditure (€ 850.9m). The RAB (80% share) of 50Hertz amounted to € 4.9bn.

Management of Elia Group

Members of Elia Group's management board are Chris Peeters (Chairman and CEO), Catherine Vandenborre (CFO), Peter Michiels (CAO), Michael von Roeder (CDO) and Stefan Kapferer (CEO). ETB's executive committee positions are currently held by Chris Peeters, Catherine Vandenborre, Peter Michiels, Markus Berger (COID), Frederic Dunon (COO), Ilse Tant (CCAO), Patrick De Leener (COCMS) and Pascale Fonck (CERO). Key decisions have to be approved by the board of directors. Stefan Kapferer, Dr. Frank Golletz (CTO), Dr. Dirk Biermann (CMO), Marco Nix (CFO) and Sylvia Borcherding (CHRO) are appointed as members of the executive committee of 50Hertz.

Appendix 1: Execution

Lead Analyst

- Karl Holger Möller, Lead Analyst

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Rating Committee Chair

- Werner Stäblein

Rating, Solicitation, Principal Sources of Information

- This credit rating has been issued in accordance with the CRA Regulation.

[x] Solicited Rating

[ ] Unsolicited Rating
- [ ] No participation of the rated entity or related third party
- [ ] With participation of the rated entity or related third party
  - [ ] Access to internal documents
  - [ ] Access to management

- Prior to its publication the rating was disclosed to the rated entity. During this period, the rated entity had the opportunity to review the rating and to verify the underlying assumptions. Following this review, the rating was not amended
- Principal sources of information:
  - Consolidated financial statements for the period 2019-2021
  - Internal reporting (e .g. business development 2022, financing overview, etc.)
  - Market and regulatory analyses, legislation, regulatory framework
  - Information on strategy and company planning
  - Interviews with the management

Rating Methodologies and Definitions

- Methodology: Issuer Rating as of May 2016
- Basic Principles for Assigning Credit Ratings and Other Services as of October 2021
- Guidance Regarding the Consideration of ESG Factors in Scope Hamburg Credit Ratings as of March 2020
- Guidance Regarding the Consideration of Governmental Support in Scope Hamburg Credit Ratings as of January 2021

Scope Ratings GmbH and Scope Ratings UK Limited apply the same methodologies/models and key rating assumptions for their credit rating services, while Scope Hamburg GmbH's methodologies/models and key rating assumptions are different from those of Scope Ratings GmbH and Scope Ratings UK Limited.

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Appendix 2: Rating categories*

Category	Explanation
AAA	In the opinion of Scope Hamburg, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of Scope Hamburg, AA rated entities demonstrate a very high credit quality with a very low default risk.
A	In the opinion of Scope Hamburg, A rated entities demonstrate a high credit quality with a low default risk.
BBB	In the opinion of Scope Hamburg, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of Scope Hamburg, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of Scope Hamburg, B rated entities demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of Scope Hamburg, CCC rated entities demonstrate a very low credit quality with a high default risk.
CC	In the opinion of Scope Hamburg, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of Scope Hamburg, C rated entities demonstrate a very low credit quality, an event of default is immi-nent.
D / SD	D rated entities have defaulted, as defined by the rating agency. The rated entity is assigned an SD rating (Selective Default) if it has only defaulted on certain debt obligations.
PLUS (+) **MINUS (–)**	Rating categories from AA to CCC are modified by a PLUS (+) or MINUS (-), where required, in order to show their relative position within the rating category.

* For more explanations and definitions please refer to:
Basic Principles for Assigning Credit Ratings and Other Services as of October 2021

Appendix 3: Definition of financial ratios

Earnings power

EBITDA margin

EBITDA margin
Numerator
EBITDA
Denominator
Total revenues

Returns

ROCE
Numerator
Adjusted operating result (= EBIT)
Denominator
Net debt + economic equity (= capital employed)

Return on total assets
Numerator
Adjusted operating and financial result + interest expense
Denominator
Adjusted total assets

Cash flow return on investment

Cash flow return on investment (Cash flow ROI)
Numerator
EBITDA
Denominator
Adjusted total assets

Capital structure

Indebtedness

Equity-to-total assets ratio
Numerator
Adjusted equity (= economic capital)
Denominator
Adjusted total assets

Leverage
Numerator
Net debt
Denominator
Net debt + economic equity (= capital employed)

Net debt

Net debt
Bonds
+ Liabilities to banks
+ Bill liabilities
+ Other interest-bearing liabilities
+ Operating lease liabilities
+ Adjustments for ABS/factoring transactions
- Cash and cash equivalents

Deleveraging potential

Total liabilities / EBITDA
Numerator
Total assets - economic capital (= total liabilities)
Denominator
EBITDA

Net debt / EBITDA
Numerator
Net debt
Denominator
EBITDA

Interest coverage

EBIT interest coverage
Numerator
Adjusted operating result (= EBIT)
Denominator
Interest expenses

EBITDA interest coverage
Numerator
EBITDA
Denominator
Interest expenses

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