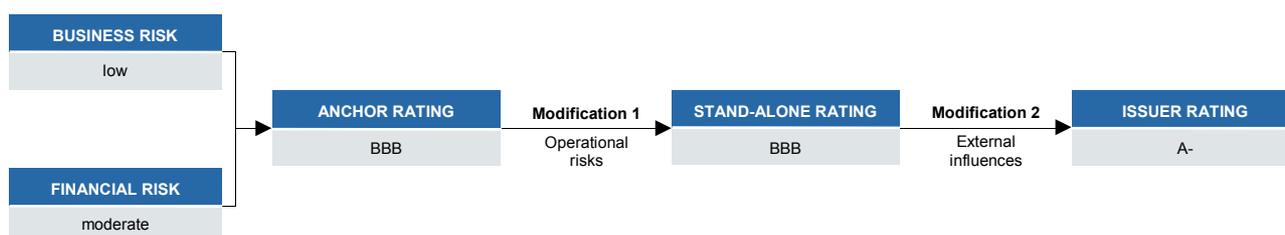


# Issuer Rating

<b>Elia Group S.A./N.V.</b>		<b>14 May 2020</b>	<b>A-</b>
		<b>Issuer rating</b>	
		<b>Outlook</b>	<b>stable</b>
Industry	Electricity transmission system operation (TSO) in Belgium and Germany	2019 revenues	€ 2.2 billion
		2019 employees	>2,500



<b>BUSINESS RISK</b>	<b>low</b>
<ul style="list-style-type: none"> <li>Secured market position due to very high barriers to market entry as a public utility with nationally and regionally diversified monopolies</li> <li>Ensuring transmission system stability in central Europe by investing heavily in grid expansion, interconnecting and renewable energy integration</li> <li>Risks from changes in the regulatory and energy policy environment</li> </ul>	

<b>OPERATIONAL RISKS</b>	<b>- 0</b>
<ul style="list-style-type: none"> <li>Appropriate handling of operational risks overall</li> </ul>	

<b>FINANCIAL RISK</b>	<b>moderate</b>
<ul style="list-style-type: none"> <li>Cash flows, recovery of costs and returns ensured by regulations</li> <li>Weakly satisfactory financing structure with a significant decrease in the ability to deleverage over the medium term</li> <li>Good financial flexibility thanks to preferred access to capital markets and funds from municipal shareholders</li> </ul>	

<b>EXTERNAL INFLUENCES</b>	<b>+ 2</b>
<ul style="list-style-type: none"> <li>High likelihood of financial support from major municipal shareholder Publi-T SCRL</li> <li>High sovereign credit ratings of Belgium and Germany</li> </ul>	

Key financial ratios *	2017	2018	2019	2020 plan	2021 plan	2022 plan
EBITDA margin (%)	57.1	37.8	42.0	40.5	40.3	41.9
ROCE (%)	6.7	5.6	5.7	4.8	4.4	4.6
Equity-to-total assets ratio (%)	35.6	22.0	26.1	24.7	24.2	24.9
Leverage (%)	54.7	63.0	62.7	66.0	66.9	65.4
Total liabilities / EBITDA	8.7	15.0	10.9	11.5	12.0	12.0
Net debt / EBITDA	5.8	7.2	6.4	7.3	7.7	7.5
EBIT interest coverage	4.0	4.1	3.9	4.0	4.0	4.4
EBITDA interest coverage	5.6	6.5	6.7	7.6	8.0	8.3

\* adjusted on the basis of EHR's analytical principles

# Rating Rationale

**Euler Hermes Rating assigns an A- rating to Elia Group S.A./N.V. We expect the rating to remain stable over the next twelve months.**

***Low business risk as a TSO with territorial Monopolies***

We assess the business risk of Elia Group's as low. Rating strengths include Elia Group's S.A./ N.V. ("Elia", "Holding") regional monopolies in Belgium and Germany and its position as a national public utility and transmission system operator with its own transmission infrastructure and government licenses. Heavy investment in modernizing and upgrading the grid, integrating renewable energy into the grid and expanding supranational transmission lines in northwestern and central Europe will, in our opinion, improve grid stability and resilience and reduce the threat of blackouts over the long term. Regulatory grid development plans, incentive systems and the roll-out of smart grids appear likely to accelerate the achievement of build-out targets. We note only low downside risks of industry disruptions resulting from the European economic recession, increasing regulatory and political risks and structural transition in supply chains. We believe Elia has the potential to provide new digital services for grid based demand-side, peak-load and network management. In our view, risks include grid instability, new technologies and greater EU deregulation arising from changes in energy policy and the regulatory framework.

***Moderate financial risk thanks to secured cash flows and good financial flexibility despite rising debt***

We rate the Elia Group's financial risk as moderate. Its earning potential and financing structure are reasonable in our view given its secured cash flow, fair regulated returns on equity and capital employed and its legally protected ability to recover its regulatory and non-regulatory costs. Thanks to its preferred access to funding from public and municipal shareholders and good access to capital markets we evaluate Elia's Group financing structure as good. However, we expect that its ability to deleverage will be increasingly impacted by its need to finance large growth investments and its obligation to repurchase green certificates from Solar Chest S.A. Due to its reasonable cash reserve and freely available lines of credit, we view Elia Group's financial flexibility as good. Its investments and business projections for the years ahead appear realistic to us overall.

***Modifications to the anchor rating due to external Factors***

We believe the operational risks are consistent with the anchor rating. We consider the high economic priority of Elia Group's public utility role for Belgium and Germany, its tight integration and the high (sub) sovereign credit ratings of Belgium, Germany, and the Belgium provinces and municipalities to be positive rating factors. We therefore assign two notches of uplift to the stand-alone rating of BBB, resulting in a rating of A-.

## Upgrade / Downgrade Factors

**Factors that could lead to an Upgrade**

- Increase of the credit quality of government-related shareholders providing external support
- Sustainable optimization of the fair regulated return on equity and the deleveraging potential
- Growth by regulated regional diversification

**Factors that could lead to a Downgrade**

- Negative cashflow and profitability impacts due to changes in the energy policy and the regulatory framework
- Sustainable deterioration of the capital structure and the deleveraging potential with investments exceeding our projections to ensure grid and tariff stability (NFV to EBITDA above 8.0x, peer group averaging 3.5x)
- Sustainable decreasing financial flexibility due to changes in shareholder's dividend policy and preferred access to capital markets

## Rating History

	30 April 2015	12 July 2016, 11 July 2017, 3 July 2018, 22 May 2019	14 May 2020
<b>Rating</b>	A-	A-	A-
<b>Outlook</b>	stable	stable	stable

# Company

**Rating subject:**  
**Elia Group with head-  
quarters in Brussels/Bel-  
gium and Berlin/Germany**

**Group's reorganization in  
order to meet regulatory  
and capital market  
objectives**

Elia Group S.A./ N.V. (former Elia System Operator S.A./N.V. ("ESO")) is the rating subject (cf. Appendix 3). Elia is a holding company with regulated electricity transmission system operations in Belgium and Germany. 51.81 % of Elia's shares are freely floated, and 48.19 % are owned by Belgian municipalities and intermunicipal companies (thereof 44.87 % by holding Publi-T SCRL). As part of the Elia Group's reorganisation in 2019, all Belgium regulated activities of Elia Group have been transferred to the subsidiary Elia Transmission Belgium S.A./ N.V. ("ETB"). ETB holds 99.99 % of the shares of Elia Asset S.A./N.V. ETB has been replaced Elia System Operator as legal successor federal and regional TSO in Belgium on 13<sup>th</sup> January 2020 (effective 31<sup>st</sup> December 2019). Furthermore the holding activities of joint venture Nemo Link Ltd. (50 %) and some other minority stakes (HGRT, Coreso etc.) are owned by ETB. Nemo Link Ltd. interconnects UK and Belgium (transfer capacity 6,065 GWh, availability 96 % in 2019) with a fixed 25-year concession effected 31<sup>st</sup> January 2019.

The non-regulated activities of Elia Group mainly comprises the finance (i.e. € 700 million hybrid and € 300 million senior debt) for the acquisition of the 20 % stake in Eurogrid GmbH (TSO 50 Hertz Transmission) and some Holding operating activities for ETB and Eurogrid International S.A./N.V. and its subsidiary Eurogrid GmbH/ 50 Hertz (group administrative activities, e.g. Controlling, Business Development, IT). Furthermore the Holding coordinates synergies of the Elia Group. Re.Allo-Energy B.V./ SRL was newly founded to build a platform to facilitate users to exchange energy data and services, and added value services. Furthermore it maintains the consultant and engineering network service business of Elia Grid International S.A./ N.V. (EGI) in Belgium with subsidiaries in Germany, Qatar and Singapore.

**ETB: Long-term licences  
and national monopoly in  
Belgium**

In Belgium, the ETB possesses a national extra-high voltage transmission system (30-380 kV) extending 8,781 km under a license that was largely renewed in 2019 for 20 years. Over 94 % of regional high voltage transmission systems (30-70 kV) belong to the ETB. In 2019, with a workforce of around 1,400 employees, ETB generated revenues of € 914.2 million and an adjusted operating profit (EBITDA) of € 390.1 million (EBITDA margin: 42.7 %).

**50Hertz: TSO with regional  
monopoly in parts of Ger-  
many**

50Hertz operates circa 10,000 km of electricity transmission lines in Germany (nearly 30 % of the German transmission system) and holds a regional territorial monopoly (new federal states, Berlin, Hamburg), similar to Amprion GmbH, Tennet TSO GmbH and TransnetBW GmbH. 50Hertz plays an important role in the challenging distribution of renewable energy produced as part of the energy transition (north-south energy highway expansion to Bavaria). In 2019 50Hertz realized revenues of € 1,323.6 million and an adjusted EBITDA of € 530.5 million with around 1,000 employees (EBITDA margin: 40.1 %).

**Management of Elia Group**

Members of Elia Group Belgium's management committee are Chris Peeters (Chairman and CEO), Catherine Vandenborre (CFO), Peter Michiels (CAO), Michael von Roeder (CDO, 1<sup>st</sup> of November 2019) and Stefan Kapferer (CEO 50Hertz, 1<sup>st</sup> of December 2019). The ETB's executive board 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 Borchering (CHRO) are appointed as members of the management of 50Hertz.

## Appendix 1: Execution

### Notice

This report represents a highly abridged summary of the complete rating report issued on 14 May 2020. The full rationale for the rating notation is given in the complete rating report that was presented to the company and has not been published by Euler Hermes Rating GmbH.

### Analysts

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- Michel Graire, senior analyst

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### Rating committee

- Dörte Mählmann, director
- Holger Ludewig, director

### Rating, Solicitation, Principal Sources of Information

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

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 2017-2019
- Internal reporting (e.g. business development 2020, financing overview, etc.)
- Market and regulatory analyses, legislation, regulatory framework
- Information on strategy and company planning
- Certificates Reservation Agreement (27 January 2015)
- Guarantee Elia in favour of Solar Chest S.A./N.V. (24 December 2019)
- Appointment ETB as TSO (13 January 2020)
- Accession Agreement between Elia, Elia Transmission Belgium S.A./N.V., Solar Chest S.A. and Security Agent, Account Bank and Cash Supervisor effective on 31 December 2019 (24 December 2019)
- Information memorandum of the transaction for the reservation of green certificates (27 January 2015)
- Offering Circular with respect to the private placement of € 275 million, status as of 22 June 2015
- Interviews with the management
- 

### Rating methodologies and definitions

- Methodology: Issuer Rating as of May 2016  
([https://www.ehrq.de/seiten/Methodology\\_Issuer%20Rating\\_20171114.pdf](https://www.ehrq.de/seiten/Methodology_Issuer%20Rating_20171114.pdf))
- Basic principles for Assigning Credit Ratings and Other Services as of March 2020  
([https://www.ehrq.de/seiten/Principles\\_2020.pdf](https://www.ehrq.de/seiten/Principles_2020.pdf))
- Guidance Regarding the Consideration of ESG Factors in Euler Hermes Rating Credit Ratings as of March 2020  
([https://www.ehrq.de/seiten/ESG\\_2020.pdf](https://www.ehrq.de/seiten/ESG_2020.pdf))

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## Appendix 2: Rating categories\*

Category	Explanation
<b>AAA</b>	In the opinion of EHR, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
<b>AA</b>	In the opinion of EHR, AA rated entities demonstrate a very high credit quality with a very low default risk.
<b>A</b>	In the opinion of EHR, A rated entities demonstrate a high credit quality with a low default risk.
<b>BBB</b>	In the opinion of EHR, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
<b>BB</b>	In the opinion of EHR, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk.
<b>B</b>	In the opinion of EHR, B rated entities demonstrate a low credit quality with an increased default risk.
<b>CCC</b>	In the opinion of EHR, CCC rated entities demonstrate a very low credit quality with a high default risk.
<b>CC</b>	In the opinion of EHR, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
<b>C</b>	In the opinion of EHR, C rated entities demonstrate a very low credit quality, an event of default is imminent.
<b>D / SD</b>	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.
<b>PLUS (+) MINUS (-)</b>	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 ([https://www.ehrg.de/seiten/Principles\\_2020.pdf](https://www.ehrg.de/seiten/Principles_2020.pdf))

## Appendix 3: Definition of financial ratios

### Earnings power

#### EBITDA margin

EBITDA margin	
<b>Numerator</b>	
	EBITDA
<b>Denominator</b>	
	Total revenues

#### Returns

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

Return on total assets	
<b>Numerator</b>	
	Adjusted operating and financial result + interest expense
<b>Denominator</b>	
	Adjusted total assets

#### Cash flow return on investment

Cash flow return on investment (Cash flow ROI)	
<b>Numerator</b>	
	EBITDA
<b>Denominator</b>	
	Adjusted total assets

## Capital structure

### Indebtedness

Equity-to-total assets ratio
<b>Numerator</b>
Adjusted equity (= economic capital)
<b>Denominator</b>
Adjusted total assets

Leverage
<b>Numerator</b>
Net debt
<b>Denominator</b>
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
<b>Numerator</b>
Total assets - economic capital (= total liabilities)
<b>Denominator</b>
EBITDA

Net debt / EBITDA
<b>Numerator</b>
Net debt
<b>Denominator</b>
EBITDA

### Interest coverage

EBIT interest coverage
<b>Numerator</b>
Adjusted operating result (= EBIT)
<b>Denominator</b>
Interest expenses

EBITDA interest coverage
<b>Numerator</b>
EBITDA
<b>Denominator</b>
Interest expenses

## Disclaimer

Solar Chest S.A. (client) engaged Euler Hermes Rating GmbH to conduct a rating of the Elia Group (former Elia System Operator) S.A./N.V. (rated entity) on 25 March 2015 with the approval of Ecetia Intercommunale SCRL (public law entity) in connection with the placement of a Fixed Rate Secured Note issue by Solar Chest S.A. Solar Chest S.A. was not visited. Interviews with the management of Elia Group S.A./N.V. took place on 30 April and 6 May 2020.

The Rating Committee of Euler Hermes Rating GmbH reviewed the rating process, issued the rating notation and approved the rating report in its current form on 14 May 2020. This rating report was given to Elia System Operator S.A./N.V. on 2 June 2020, thereby concluding the rating process.

The rating is Euler Hermes Rating GmbH's opinion of the creditworthiness of a rated entity. It is not a statement of fact. Euler Hermes Rating GmbH is not engaged in buying or selling securities. Its rating report is neither a prospectus nor a substitute for information assembled and presented by companies or issuers for investors regarding the purchase of a security or for assessing the creditworthiness of a rated entity. The rating is not a recommendation to participate in certain facilities. All recipients of the information must conduct their own independent analyses, credit assessments and other verifications and evaluations that are customary and necessary in order to reach a final decision about participating in any facility.

The rated entity is solely and exclusively liable for any errors and omissions in the documents and information openly and willingly provided to us in response to our requests for information. The rated entity has reviewed the rating report and certified that all the information considered in the rating report is accurate and complete in all significant respects, no significant aspects have been concealed and any forward-looking statements are based on plausible, verifiable and current data and were prepared by the rated entity exercising reasonable and commercial care. The rated entity's representatives have issued a written certification of completeness to Euler Hermes Rating GmbH. However, the rated entity cannot be held liable if actual results differ from the forward-looking statements presented in this document, particularly the projections. Forward-looking statements and projections may be adversely affected by unforeseeable events and changes in the economic environment. Euler Hermes Rating GmbH assumes no liability for the accuracy of the information it considers when issuing a rating and extends no guarantee whatsoever that the information is explicitly or implicitly correct, timely, complete, suitable for the market or fit for any particular purpose.

The rating is published on Euler Hermes Rating GmbH's website ([www.eulerhermes-rating.com](http://www.eulerhermes-rating.com)) or published for subscribers (e.g. on a portal) and will be followed by a subsequent one-year monitoring process. During this period, the rated entity and the sector and business environment in which it operates will remain under observation. The representatives of the rated entity remain subject to a full disclosure obligation during this period. Any change in Euler Hermes Rating GmbH's rating assessment will result in a change in the published rating notation, meaning that this notation represents the current rating assessment at all times. The rating will only remain published after the end of the monitoring period if a follow-up rating is performed.

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Euler Hermes Rating GmbH

Hamburg, 2 June 2020