Elia Group Full Year 2020 Results

Wednesday, 3rd March 2021

Transcript produced by Global Lingo
London – 020 7870 7100
www.global-lingo.com

Elia Group Full Year 2020 Results

Marleen Vanhecke: Good morning, ladies and gentlemen. Thank you for participating in our livestreamed event, which is being broadcast from a corona-proof studio in Brussels. It would have been nicer to meet you in person, of course, but the lockdown measures have forced us to present our full year results in another format.

The setup is different, but we will keep you just as informed as we normally would. What hasn't changed are today's speakers. Elia Group is represented by Catherine Vandenborre, CFO, and by Chris Peeters, CEO, both in good health, as you can see.

Today's programme is as follows. First, we will give you an overview of the headlines from 2020. We will talk with Chris Peeters about the acceleration of the energy transition and how Elia Group is managing it. Catherine Vandenborre will then present the financial results. And finally, we will present our conclusion and an outlook on the years to come.

Before we start, I would like to present a disclaimer for today's presentation as mentioned on the title page. You must read the disclaimer before we can continue. I suppose you have all done it by now. Am I right? So let's immediately go to the first question for Chris.

Marleen Vanhecke: Chris, looking back at 2020, it's impossible to avoid the corona crisis, of course. How did it impacted the operations of Elia Group?

Chris Peeters: Well, actually there were some shifts but there were actually no delays. If you look at the final result at the end of the year, all the projects that we had to deliver were delivered. And so, overall, we were quite resilient towards that crisis. We had already set up a corona taskforce before the first lockdown. And so we were quite well prepared, meaning that, within 24 hours, all our office personnel was working remotely and we stopped immediately all the building sites that we were operating at that moment of time. And we gradually restarted them then in healthy conditions later on.

I did some site visit to see if that could happen within good health conditions for our personnel. And as a crucial sector, we therefore could keep on delivering our mission, which is keeping the lights on, but also delivering the infrastructure needed for the future of the energy transition. And I would like to express my sincere thank you to all our personnel because of all the efforts they have done to deliver this result over the year.

Marleen Vanhecke: Indeed. Catherine, without going too much into details, did it had an impact on the financial figures?

Catherine Vandenborre: Well, from a financial point of view, Marleen, COVID-19 had no significant impact on our results. And this is due to the socioeconomic importance of our activities in the largely regulated nature of our business.

Marleen Vanhecke: Yeah. No impact on the results. But did it had an impact on consumption for instance?

Catherine Vandenborre: Yes. And as you can see on the slide, there was a significant drop in electricity consumption. For Belgium, the consumption dropped by 7% below the average, while for Germany this was 4% lower. In addition, the average prices on the day-ahead market were below normal times. However, this drop in volumes had no impact on the profitability of the Group, as such a drop in revenue are recoverable through future tariffs according to the regulatory framework.

For 2020, Elia Group realised an adjusted net profit of €308.1 million, up 0.6% compared to previous year, driven by the realisation of our investment programme of over €1 billion and a solid operational performance in Belgium, Germany, and Nemo Link on which we'll come back later when zooming on the financials.

Marleen Vanhecke: Okay. Europe is preparing a major recovery plan to counter an economic recession. In countries like Belgium and Germany, it is clear that the European green deal will be used as a compass with green economy and digitalisation as key guides. Chris, what would that mean for Elia Group?

Chris Peeters: Well, of course, it's obvious that Europe focuses on these things because what you try to do in a recovery is to pull forward those investments that you were anyhow planning to do and that help create more jobs, that help create an acceleration of your economy. And, therefore, of course the elements that are in the green deal are a good candidate for that because it's mature technology that you would like to develop soon. And on top of that, if you look at digitalisation, it creates opportunities for new services or clients that bring more value.

If you look, of course, then at Elia, it’s exactly what we were focusing on already before the COVID crisis. So we see now new opportunities acceleration coming in for us. So actually the environment due to COVID is becoming more attractive when we look in terms of recovery to that environment.

Marleen Vanhecke: Acceleration of the energy transition, you said new opportunities, but what does that mean in concrete terms?

Chris Peeters: Well, concretely, as Europe stated as well in the last communication that they did, they will accelerate on the development on the Nordic Seas and we are present both in the Baltic Sea and into the North Sea. And what we will see is that more interconnections will come, more wind farms will be connected to the grid. And so that creates, of course, opportunities for us to build that infrastructure that is needed to bring this new energy to the shore.

And on top of that, if you look at the digitalisation side, we already launched a few years ago the Internet of Energy, a programme where we focus on the digitalisation of the sector trying to understand new needs, integrating new flexibility to ensure that we can continue to integrate more renewables, and that programme, of course, will accelerate with this acceleration of integration of new renewals.

Marleen Vanhecke: Okay. In November, Elia Group published a study on electric mobility. The study has shown how successful sector conversions can be in reducing CO_2 emissions. Do you see another collaboration on the horizon that can be as successful as the automotive sector?

Chris Peeters: Yeah. Sure. So e-mobility is just a stepping stone into a full transition. The way how we look at the energy transition at Elia is that it will come in waves and that you see sector convergence happening in waves based on maturity of technology. And the first candidate, of course, was e-mobility. This is the effect of the fact that we see that battery technology is becoming cheaper and cheaper. And so those cars become more attractive. And so that was the first thing to focus on in our study work.

Earlier this year, we signed an MOU with BESIX and BESIX is a building company managing many buildings. And this MoU is covering the dimensions of smart buildings. Smart buildings will become more and more relevant as they have a lot of flexibility in their heating systems that we can use as a sort of battery for the energy system going forward. But it's not stopping there. After buildings, we see as well that industry will start to decarbonise to achieve their own targets within that green deal. And so they will start with electrifying some of their processes.

Again, we will see start with mature technologies. So first of all, electrification of heat systems, motion control that are the first one that we see electrifying and then later on we see green molecules coming in. So hydrogen will play an important role, not yet for now. But in the longer future, it will play an important role, and that will as well then change fully the way how this industry will interact to the grid. So you will see those shifts coming up.

So the consumer – the retail consumer that will change, the industrial consumer that will change. And as we see the trend coming, we launched a new department which is called customer-centricity, where we really focus on better understanding what are those new needs and how do we integrate them while in the network of the future.

Marleen Vanhecke: Yeah. Putting the consumer more on the centre of the system. That brings me to the Internet of Energy project, IO.Energy, you already mentioned it, Chris. The ecosystem was set up two years ago on Elia's own initiative to close the gap between sustainability and digitalisation and to promote innovation in the energy sector. Two years later, where are we on this?

Chris Peeters: Well, last year in October, we ended the first sandboxing phase. And so the first sandboxing phase, that includes eight use cases on different elements. So some of them were in smart buildings, some of them were on energy communities, and they were very successful. We saw how this new way or flexibility can be integrated by giving price signals to those end consumers.

And what we will do now is launch a second wave, which will be a bit more focused on e-mobility and further developing solutions within the building sector. And that will be launched by the end of April. The different use cases are now preparing for that pitch by the end of April and then we will launch its sandboxing phase over the summer. And that will then create new opportunities and new solutions to consumers.

It's not only in Belgium that we work on that. We also launched recently the Internet of Energy in Germany. There, we focused a bit more on the industrial side of that. We have a couple of clients that start asking us questions how they could decarbonise their activity and how we could work together with them to see what that means in terms of their relationship towards the electricity grid. So that's one thing that we do.

And we already launched, a few months ago, two use cases. One focused on better data capture from the smart metres in Germany through the gateway and another one focused in a partnership with Volkswagen on understanding better how we can integrate the flexibility coming from e-mobility.

Marleen Vanhecke: Yeah. That's indeed a nice example of collaboration between Elia and 50Hertz on innovative projects. Thank you, Chris, for these first reflections. One of the strategic priorities of Elia Group is CapEx delivery. Implementing our ambitious investment programme is currently Elia Group's biggest social responsibility. During COVID times, our teams have gone the extra mile. As Chris has already mentioned, hardly any of our main projects were experiencing delays. Let's have a look at the top four projects of 2020.

[VIDEO]

We have projects like Combined Grid solution and ALEGrO, we are witnessing more European integration and also more coordination. Chris, is it an advantage for Elia Group to be operational in multiple countries on a bigger scale?

Chris Peeters: Yes, that becomes also more and more relevant going forward. So what we see is that the energy policies are more and more decided on the European level. It's important because realising the energy transition can only happen by more coordination between countries. And, of course, if we are present in two of those countries, that creates for us more opportunities to be relevant for the European Commission but also relevant for the two countries that we serve.

And this is all what we see in our shareholder base. We have shareholders that are closely linked to those governments both in Germany and in Belgium, which of course further supports the fact that we are delivering the energy transition for that society.

And if you look at the internal site of the company, there you see the importance of scale going forward. The projects that we will deliver will become more and more complex. If we see on some of those projects offshore, they are very complicated projects that demand very specific expertise and of course a larger group gives the advantage that we can share this expertise between Germany and Belgium.

And lastly, scale as well helps us to be more innovative and to stay ahead of the curve. New technologies both technically like HVDC, but also at the digital side come in and the larger group is more prepared for those new innovative changes.

Marleen Vanhecke: Yeah. Scale is indeed a determining factor in innovation. Catherine, another topic that is increasingly managed and discussed at Group level is sustainability. We already talked about greening the economy. But what changes has Elia Group brought in this area?

Catherine Vandenborre: Yes, Marleen. Sustainability has and will continue to be part of our strategy. Elia Transmission Belgium and 50Hertz have been reporting for several years now on the sustainability actions separately. Lately, they have done so jointly as Elia Group in the annual report. Following the growing expectations of society and a higher political ambitions, as also commented by Chris, Elia Group wants to be more ambitious and explicit with regards to its sustainability goals.

We have identified five lighthouses presented on the right-hand side of this slide to name a few. We want to be carbon-neutral in all operations by 2030. And given the need for activities, safety was, is, and will always be a top priority. Both in Belgium and in Germany, we aim for zero accidents. We have improved our regional rating by 8 point to 50 point moving up to a robust performer.

I think it's also the perfect time to announce that we will host Elia Group’s first Capital Markets Day, which will give up an update on the Group strategic direction with a focus on sustainability and where we will give more details on the five lighthouses, as well as our focus on our offshore developments.

Marleen Vanhecke: Indeed. The Capital Markets Day will be held on 27th April and invitation will follow and will be sent to you very soon. Thank you, Catherine. So we've already presented a few key figures but we have many more, of course, to show. Catherine, I would say you take out the camera for the full picture.

Catherine Vandenborre: Thank you, Marleen. And indeed let me take you through the results.

First, Elia Group revenues amount to €2.47 billion, representing a 6.7% increase compared to prior year. This increase was driven by higher revenues in Belgium, up €55.9 million; higher revenues in Germany, up €94.8 million; and higher revenues for Elia Grid International of €10.2 million.

The higher revenue in Belgium follows the increase of costs that are passed through in revenue and the new tariffs applicable in 2020. In Germany, revenue increased mainly due to higher energy revenue, which are also passed through. The EBIT increased by 1.5% compared with 2019 amounting to €578.5 million. This is the result of a lower EBIT in Belgium decreasing by €6.4 million offset by a higher EBIT in Germany of €18.8 million.

For Belgium, the decrease result from three element. First, we had lower financial cost in 2020 than in 2019. If you remember, the 2019 financial costs were impacted by the rights issue and corporate reorganisation, which will pass-through into revenues.

Second, with the start of the new regulatory period, there was a change in the regulatory treatment of the intangible assets. And third, those two elements are partially offset by an increase in the regulated net profits which was driven by a higher equity remuneration and higher incentives with the start of a new regulatory period.

In Germany, there are mainly three elements that explain the higher EBIT. First, we have higher investment remunerations due to an increasing RAB. Second, we finalised regulatory settlements linked to open issues relating to past years. And third, those two elements are partially offset by higher depreciation and a higher personnel and IT costs, driven by the growth of our activities.

The associates contributed €9.2 million to the Group's EBIT, mainly driven by a full year of our operation for the Nemo Link Interconnector. As mentioned, the adjusted net profit of Elia Group rose by 0.6% to €308.1 million, and this, driven by the realisation of investments, the strong operational performance of the related activities of Elia Group and Nemo Link, and partly offset by the loss on non-regulated activities.

With the net profitable attributable to the Elia shareholders of €250.1 million, Elia Group realised, in 2020, an adjusted return on equity of 7.2%. And I suggest now that we take a closer look at our regulatory asset base.

The RAB of Elia Group increased by 6.1% amounting to €9.7 billion at the end of 2020. This increase is driven by the strong progress made in major infrastructure works in Belgium and in Germany, as shown in the video, to accommodate the growing inflow of renewable energy. For Belgium, the RAB increased by approximately 6.3%, while in Germany, it increased by 5.6% compared to prior year.

I remind you that the RAB reported by Elia Group doesn't include Nemo Link investment, which has its own regulatory framework and remuneration and includes only 80% of the €50 RAB.

Looking at the trend of the last years, the RAB increased considerably witnessing the rollout of our organic growth strategy. We are confident to be able to push you over the next five years, an anticipated RAB growth of around 8.5% on an annual basis.

Now looking at net debt of the Group. We carried a total net debt of around €7.5 billion, which represent an increase of 35% compared to 2019. I would like to highlight that a big part of this increase is temporary as it was driven by the significant decrease in EEG cash position in Germany.

Let's have a closer look at the key drivers for the increase in net debt. First, the EEG cash balance in Germany dropped significantly by €1.2 billion. This was due to a very high renewable electricity infeed, combined with low electricity prices and lower consumption volumes leading to lower cash in from collected surcharge, therefore, impacting the working capital of €50.

In order to finance this, three facilities for a total amount of €700 million were contracted and fully drawn at year-end. In January 2021, this temporary EEG deficit was settled with the payment of federal grants allowing new Eurogrid to pay back all external facilities. Two additional grants are planned for May and October.

Also it is important to note that the pre-financing of the EEG mechanism is neutral from a credit rating perspective and that all costs are fully charged to the mechanism.

Second, the Group invested more than €1 billion in infrastructure in 2020. These investments were mainly financed by cash flow from operating activities and by external debt. Both Eurogrid and Elia Transmission entered the debt capital market for a total amount of approximately €2 billion. In 2020, taking advantage of the low interest rates, Elia Group reduced the average cost of debt by 24 basis points to 1.89%, and this is largely to the benefit of society as the cost of debt is mainly pass-through.

Elia Group has fixed rate debt outstanding and only fixed rated debt since the repayment of a floating rate shareholder loan in June. The rating of Elia Group remained unchanged being BBB+ with stable outlook.

Now, let's take a more detailed look at the underlying performance of the different segments starting with Elia Transmission. Revenues increased by 5.9% totalling €1 billion. The increase is a consequence of the cost-plus regulation mechanism. More specifically, the revenues were impacted by a higher regulated net profit, higher depreciations, which are linked to the growing asset base, and a higher costs for ancillary services. And this was partially offset by lower financial cost driven in 2019 by the capital increase and the bond consent process for the corporate organisation, which were all passed through into revenue. The adjusted net profit came in at €124.8 million, up 2% compared with 2019.

Let me explain in detail the key drivers of the slight growth. First, and as already mentioned, last year's adjusted net profit benefited from a one-off positive compensation of €6.1 million for the cost linked to the capital increase. Second, the fair remuneration increased by €59.7 million to €98.5 million. This increase is primarily driven by the higher return on equity and the higher gearing ratio and includes the full remuneration of the 2019 capital increase. Also the contribution from incentives increased to €25.8 million.

Both increase in fair remuneration and incentives are more than offsetting the termination of the market compensation under the new regulation. The result was also negatively impacted by a change in the regulatory treatment of intangible assets.

Finally, the capitalised borrowing cost decreased negatively impacting the results by €3.9 million. And this following the commissioning of major investment in 2019 like the Modular Offshore Grid and ALEGrO. This effect was more than offset by positive impact on employee benefits and the release of a tax provision. In line with the regulatory framework, this resulted in a return on equity of 5.5%.

Now from a balance sheet perspective, Elia Transmission Belgium has a solid capital structure with an equity portion slightly above 40% of the regulated asset base in order to maximise the return under the new tariff methodology. In 2020, the equity increased driven by the year's result, the capital increase reserved for personnel and was partially offset by the allocation regulated equity to Nemo Link to align its financing with the gearing ratio of the current regulatory framework being 60% debt, 40% percent equity.

From a debt capital market perspective, Elia tapped into the debt markets by issuing an 800 million Eurobond at a fixed rate of 0.875%. It was Elia's largest operation at the lowest coupon ever, and this is fully to the benefit of consumers. Through this transaction, Elia strengthened its liquidity position and reduced the average cost of debt to 1.93%.

The liquidity position was further enhanced by the repayment of the €75 million revolving credit facility that was drawn at the end of 2019. In addition, and as a part of our sustainable financing strategy, we signed a €650 million sustainability linked revolving credit facilities tied to series of Elia's sustainability performance targets.

Also, a new commercial paper programme was put in place for €300 million, both programme being fully undrawn. Today, Elia transmission has a well-balanced debt maturity profile with a weighted debt duration of 7.4 years and no upcoming middle term material maturities.

Now, let's have a look at the results of 50Hertz transmission. Revenue increased by 7% to almost €1.5 billion compared to 2019. Revenues were mainly impacted by higher charges to other German TSOs as cost for reserve power plans in the 50Hertz grid region have increased. The adjusted net profits came in at €192.6 million, up 8.5% compared to previous year.

In more detail, the key drivers are the following. First, the results benefited from one-off regulatory settlement with the regulator relating to the years 2013 to 2017, and one-off adjustment linked to the adoption of the offshore regime for 2019 in total amounting to €27.0 million.

Second, the execution of investment and a growing asset base led to an increase in the investment remuneration by €16.1 million. A countereffect of this growth is reflected in the depreciation cost which increased by €21.2 million, mainly due to the commissioning of the Ostwind 1 at the end of 2019.

Also, the financial result increased by €2 million due to higher capitalised borrowing cost offsetting higher interest on long-term provision.

Finally, the OpEx and other costs increase by €8.7 million, driven by the expansion of the business and digitalisation cost to manage increasing complexity in system operations. This all resulted in a return on equity of 11.8% witnessing the asset growth of 50Hertz, following the realisation of its investment programme despite the COVID-19 pandemic and a strong operational performance supported by one-off regulatory settlement from previous years.

From a balance sheet perspective, the equity increased by 5.5% driven by the higher result. As far as debt is concerned, Eurogrid issued a bond and a private placement in 2020. First, early May, Eurogrid issued its first green bond of €750 million with a fixed coupon of 1.113%. The proceeds will exclusively be invested in a portfolio of offshore renewable electricity project in assets namely 50Hertz’s offshore project Ostwind 1 and Ostwind 2. And as such, directly contribute to the further decarbonisation of society.

Then Eurogrid entered the market for a second time in November with a private placement of €200 million with a fixed coupon of 0.875%, thereby further strengthening its liquidity position. This is Eurogrid’s longest duration bonds at the lowest coupon ever. And despite the high cash need for EEG, the liquidity position of 50Hertz remains strong at around €1.2 billion with all non-EEG related revolving and overdraft facilities fully undrawn.

The maturity profile is well balanced with a weighted debt duration of 7.8 years. There has been no change to the rating which remained BBB+ with a stable outlook.

Let's look at the third segment, which includes our non-regulated activities and Nemo Link. This segment reported an adjusted net loss of €9.3 million. On the right-hand side of this slide, you can see the evolution of the key drivers of this net adjusted loss. First, we have a higher contribution from Nemo Link by €0.9 million. Nemo Link had a strong operational performance reflected by a very high overall availability of 99.17% making it one of the highest performing assets of its kind in the world.

From a financial point of view, Nemo Link had a solid performance realising a total net profit of €15.1 million for 2020 taking into account a one-off tax adjustment related to prior years amounting to €6.6 million. In 2020, Nemo Link, in which Elia Group owns 50%, contributed for €7.4 million to the Group’s results. Compared to the first half of 2020, the preferential dividend for National Grid was re-qualified as a liability to be released over the lifetime of the assets.

Secondly, the holding cost increased by €13.1 million. This increase is driven by two elements. First, is the first year of full operation of holding activity. And second, the interest cost for the non-regulated senior and hybrid bonds are no longer tax deductible as Elia Group does not have sufficient operating income to absorb the financial cost in accordance with the new tax rules implemented from 2020. In total, the holding contributed negatively to Group’s result for €10 million.

Also, cost increased with the official launch of Re.Alto and the further development of further platform. As a reminder, Re.Alto is a European market platform by which we want to facilitate the exchange and valorisation of data and digital services. Today, Re.Alto has onboarded over 40 different APIs, has more than 250 users registered on the marketplace, and realised its first subscriptions on the platform. Re.Alto is currently working at further enhancing the marketplace and developing extra features for the data consumers. In 2020, the total cost of Re.Alto was approximately €900,000.

Finally and following the review of the standard 2019, the Belgian regulator rejected for €2.4 million of cost as part of their yearly review.

We'll finish off with our dividend proposal. We will propose to the General Assembly an increase in dividend amounting to €1.71 per share. It represents an increase of 1.18%, higher than the inflation of 0.74% for 2020 and which takes into consideration our CapEx plan and our commitment to execute our ambitious organic growth strategy.

What remains is the outlook for 2021. What is certain is that the COVID-19 pandemic continues to evolve and we are operating in an continuously changing uncertain environment. However, given the socioeconomic importance of our activities, the Group's efforts to ensure its business continuity and the largely regulated nature of our business, Elia Group doesn't expect a material impact of COVID-19 of the 2021 result.

Elia Group is confident to realise an adjusted return on equity between 5.5% and 6.5%. This return depends on the return on equity of the regulated activities in Belgium and Germany, but also the non-regulated activities and operating costs inherent to the management of the holding company.

In Belgium, we remain confident in achieving a return on equity of between 5-6% while investing around €365 million. In Germany, we aim to achieve a return on equity of between 8-10%. Here, I would like to highlight that in 2021 we foresee pressure on operational efficiency, and this is because we will be reaching a peak in the maintenance activity cycle while we further increase the talent pool to deliver on the energy transition.

50Hertz intends to invest roughly €860 million. For the third segment, we anticipate to slightly increase the result in 2021 compared to 2020. However, I would like to stress that it will depend highly on the performance of Nemo Link, given its contribution to this segment. As you all know by now, Nemo Link's performance is highly dependent on the electricity price differential between Belgium and the UK.

And as a final remark, I would like to note that this guidance obviously doesn't take into account any potential M&A transaction. With those investments in Belgium and Germany and considering that the realisation of those investment plans is always prone to certain external risk, we expect for 2021 a total regulated asset base of €10.4 billion.

And as I mentioned in the beginning of today's presentation, I hope you will join us at our first virtual Capital Markets Day that will be held on 27th April.

I will pass you back to Marleen and Chris, who will conclude today's presentation with our investment guidance.

Marleen Vanhecke: Okay. Thank you, Catherine, for your comprehensive presentation of the annual figures. We just saw the outlook for the coming year. Now, we will discuss the outlook for the longer term on the next slide. The CapEx programme in Belgium is outlined for the next five years. Chris, what are the big trends here?

Chris Peeters: Well, you see here a continued strong organic growth for the years to come. So that will create a asset growth of between 8-9% yearly for the coming five years. First of all, if you look at the start of that period, you see that the main project that we see there are CapEx related to replacement investment and as well the reinforcement of the existing backbone.

But if you look then from the period '23 onwards, you see that the new projects from the next wave of the energy transition starts to kick in.

What are those projects? First of all, there is the second offshore zone Princess Elizabeth that will have to be connected to shore with a project which is called MOG II. I will tell something more about that later. And of course, on the onshore side, we need to complete the missing links, Ventilus and Boucle-du-Hainaut, to ensure that all this energy coming up from out of the North Sea can be brought to the demand centres.

Marleen Vanhecke: A potential new project that is not reflected in the figures that we just saw, of course, is the hybrid interconnector with Denmark. The Belgian and the Danish Minister of Energy signed an MoU for a subsea cable between the two countries. And in the meantime, as you can see on the next video, Elia signed a letter of intent with Energinet. A joint working group is now examining the feasibility of this cable. Chris, what are the drivers for this potential new project?

Chris Peeters: Well, this is a very important next step because it's, of course, not in the five-year investment period, but it will create new opportunities going forward. This Belgian-Danish cable would create a first interconnection with a non-neighbouring country. And so it allows that we tap into energy into a country which has a very different dynamic from the dynamic that we see close to the Belgian market.

Secondly, we will use the hybrid technology that we used for the first time in the world, yeah, in the German side with the Kriegers Flak that we inaugurated last year. We will use – apply the same technology. And so we can integrate offshore wind that is on the road of this trajectory between Belgium and Denmark. And therefore, it will become a very important first step of the next wave in that energy transition.

And what we expect is actually that this is only a starting point that we will see more of those opportunities going forward, that we will have to tap, as a country, more and more into far away markets. And then this kind of technology that we have developed recently within the Group will become very likely important in the future development of the grid in the North Sea and as well in the Baltic Sea.

Marleen Vanhecke: Yeah. This is indeed a starting point as we see new potential projects coming. The Federal government – the Belgian Federal government has announced, for instance, a potential new project, a multi-functional energy island 40 kilometres off the Belgian coast, which will be used for the connection of the second offshore wind. So this is part of the Belgian dossier that can claim a subsidy from the European Recovery Fund. And let's hear a statement from Prime Minister Alexander de Croo about it.

[VIDEO]

Marleen Vanhecke: Yeah. And energy island as a new ecosystem, Chris, the Prime Minister seems to be very enthusiastic about the project. So what are the prospects there?

Chris Peeters: Well, I would say he's not the only one who's very enthusiastic. We, at Elia, are as well very excited about this project. First of all, it will create the opportunity to do in a cost efficient way bring the energy coming from the next zone in the Belgian North Sea to shore. So we have 2.1 gigawatt of offshore wind coming in, in the period 2025-'29 and that needs to be brought to shore.

And this is a new way of bringing this to shore. And again, we will be on the forefront of using these new technologies of islands to bring this to shore. But even more important, it's a step into the future because what we see in more and more studies is that going forward in the energy transition, we will need those energy islands as an energy hub that will be connected between countries and make sure that we can bring in energy from other places where the wind conditions might be different at a moment of time, so that we have a balanced grid into the North Sea.

And so we will, again, like we were last year with the Kriegers Flak with a world first, we will have a world first into using energy islands to bring together energy from different countries.

Marleen Vanhecke: Yeah. It's clear that the North Sea will become a power centre, but there is another European sea with grid development opportunities, the Baltic Sea, which is adjacent to the 50Hertz control area. Let’s hear a last statement from Stefan Kapferer, CEO of 50Hertz, on the potential of the Baltic Sea.

[VIDEO]

Marleen Vanhecke: Thank you, Stefan Kapferer, for the statements. The importance of offshore wind is already reflected in the investment plan in Germany. Let's have a look now, Chris, at the grid expansion plan for the next five years in Germany. It seems that also there, we have an important asset growth.

Chris Peeters: Yes. No surprise over there. We continue to have an important CapEx programme over there. And maybe interesting anecdote was a link directly to Belgium because Ostwind 2, one of the connections we will make is the Arcadis Wind Park and Parkwinds of the Colruyt Group will execute that project in the coming years part of that investment plan. And soon, we will be having the auction of the Ostwind 3 zone, so that will bring in more renewable energy into the German market.

Next two, of course, bringing offshore to shore. We will continue to develop our investment plans for the onshore part so the North-South Corridor. SuedOstLink will start as of 2022 with its investment and there we will see the use of a new standard that the four TSOs brought to the market, which is a 525-kilovolt cable that allows us to have an enormous capacity that we bring with HVDC technology from the North to the South.

So what you see is that the CapEx acceleration that we see in Germany is both coming from an offshore component as from a onshore component. What you not see yet into this project is that not only Belgium has signed an MOU with Denmark, Germany that did it as well. And 50Hertz followed with an LOI for the Bornholm Island. This is not an artificial island. This is a real island, but it will as well become the first energy hub into the Baltic Sea. And Elia Group will be part of that as well.

Marleen Vanhecke: Okay. Thank you, Chris, for this outlook on Germany and these additions. Ladies and gentlemen, we've seen a lot of figures and received a lot of clarification. I suggest that we now move to the Q&A. Operator, could you take us through the questions? Do we have a first question please?

Questions and Answers

Operator: I'll just let everyone know, if they want to ask a question or remark, please press star one on your telephone. Star one for questions or remarks. Go ahead please. We have a question. The first one is from Mr Bart Cuypers, KBCS. Go ahead. Your line is open.

Bart Cuypers (KBC Securities): Yeah. Good morning. Thank you for the presentation. Maybe just continuing with where you ended off. So the CapEx plan in Belgium, some interesting developments over there as already visible in 2025 figure, which spikes compared to the last couple of years. So mainly the grid reinforcement, the backbones, as well as, yeah, MOG II, as you mentioned. And then yeah, after that, yeah, the interesting project that you mentioned with the energy island and the hybrid interconnector as two examples, which seem to move quite fast, I have the impression. And I also heard that there was a third possibility for a third offshore wind zone. So maybe just going to the specific questions right now, for the Boucle du Hainaut and the Ventilus project. I mean, it's already quite a spike in 2025. Can you give a rough indication of how much for those projects would still be outstanding up to 2025? Is that almost already reflected there? Or are there still some important CapEx after that?

And then secondly, for the – if there was to be, let's say, a third wind farm in the North Sea, I think it would mean my assumption that most of the MOG II is already in the figures until 2025. Is there some part for MOG II after that? And is there – and if there is a third wind zone, is that to be connected from there or would that also require a third MOG, if you will, in addition to the other projects?

Chris Peeters: Thank you for the question. If you look at the Ventilus project and the Boucle du Hainaut project, the Ventilus project starts its investment cycle indeed at the end of this cycle. Boucle du Hainaut will be a little bit late. So most of the investments are still for the period beyond five years that you have seen.

For the MOG II projects, what you see is we have today two alternatives. One is a three platform solution and the three platform solution, the first platform you would see coming in, in the five-year period. The two other platforms would be in the second period. But if the island goes through, then it will replace platform solution. And then you will see that the – let's say, the island itself will be built just before the 2025 period because that's important also for Europe that this is falling within that recovery plan.

But a lot of the installation works that has to be done, so the transformers and the switchgear that we need to put on place will be for the period after '25 when we start to connect the first wind farms.

And so, if you talk about a third zone, as we know in the current marine plan of Belgium, there is not yet a third zone. We know that there are talks about looking at further opportunities into the Belgian North Sea, but that would mean that the Marine plan needs to be adjusted before we can really make an estimate of what that would mean.

The other thing that we look at, at this point of time, which might be relevant but it's too early to make a statement on that is the fact that the Princess Elizabeth zone has been designed into, let's say, a technology at the moment that they looked at that and we see a rapid change in technology in the offshore zone. So that would mean that a 2.1 gigawatt might be uplifted at some point of time. But it is a little bit too early to make any statement and firm statement on that. Is that an answer to your questions?

Bart Cuypers: Yeah. Definitely. Thank you. Thank you for additional colour. And a similar question for Germany. Yeah, that there will be an acceleration, if you want, in Germany compared to last couple of years that I think was already generally anticipated. And so you see 2025 is a continuation of the step up in the year 2022 – '23, '24. Just a general question there as Germany was a pioneer in the will to change the renewable energy and reduce our emissions from that front. Have you seen a shift in momentum or plan from the regulator's point of view in ambitions with the electricity price evolution locally compared to, let's say, Europe, or has that been unchanged by that?

Chris Peeters: Well, what we have seen over the last couple of years are no change so far. Of course, we wait what the next government will bring after September. But so far, there has been a strong commitment to the energy vendor. And the only thing that we have seen is based on, let's say, pressure coming from the outside, meaning the green deal and all these things that they have like many other countries accelerated their ambition, and we see no reason today within the green deal that that would change over time in Germany. Is that an answer to your question?

Bart Cuypers: No further questions.

Chris Peeters: Okay. Thank you.

Operator: Our next question is from Mr Olivier Van Doosselaere, Exane BNP Paribas. Go ahead please.

Olivier Van Doosselaere (Exane BNP Paribas): Good morning. I hope you can hear me. Thank you very much for your presentation this morning. I have actually four questions, if I may. The first one is on the guidance. So what you say on return on equity for 2021, that makes me calculate a potential net profit for parent holders of Elia, so after minorities and after hybrids of somewhere between €200 million and €230 million. Could you confirm if that's indeed the right calculation based on the ROE guidance? And then obviously, that includes some pressure from what you said the maintenance cycle in Germany. So I suppose that we should expect a rebound in 2022? I think on the same scope of net profit, I think the consensus on your website has around €290 million of net income for 2022. I was wondering if you could confirm to us if you feel comfortable with that expectation or it – maybe that's a bit on the high-end side?

A second question that I would have is on the balance sheet. I think even if we strip out the EEG, we could see that you have a net debt over EBITDA, which would be close to 7 times, which maybe seems a bit high relative to your peers certainly in the context of the CapEx acceleration that you that you project. So I hear the comment on the stable outlook. But how do you feel about the strength of your balance sheet? And could you think about the possible need to actually do a capital increase at some point in the near to medium term to fund the CapEx?

And third question would be on the dividend for 2021 taking into account the likely earnings decrease and also the comment I made on balance sheet. Is there a risk of a dividend cut in 2021? Or do you feel comfortable that your dividends would at least stay flat?

And then the last point – sorry for the many questions – on M&A. You actually made a comment on M&A in your guidance statement, which I find interesting but I don't think that you have so explicitly put M&A really in the outlook commentary. So I wonder if you have actually something meaningful potentially on the table today or if this is just a general comment? Thank you.

Catherine Vandenborre: Thank you. So I will take the first question on the guidance that we gave. So you mentioned a range in terms of net profit attributable to the owners of the company. You ask me to confirm whether, let's say, the range is reasonable. And indeed, I can confirm that this range is reasonable based on all expectations of the result today.

Second, on the longer term, like you have mentioned, 2022-2023, they are still years in which the current regulatory framework will be applicable both in Belgium and in Germany. And in the past what we have always mentioned on the expectation regarding the return on equity is that for Belgium on average on the total regulatory period, we expect the return on equity between the 5-6%. And in Germany on the total regulatory periods and on average we expect a return on equity between the 9-11%.

So clearly some maintenance activities in 2021 rebound to be expected based on the provision that we can due to the – on the best knowledge we have of the evolution to end 2023. So that’s for the first question.

Second question on the balance sheet. There are different elements. First, today in terms of credit metrics, the one which is the most looked at by the rating agency is the FFO to net debt with a level being set at 9%, so 9% of FFO net debt over the long run. We don't see – based on the projection we can do, we don’t see the FFO net debt dropping on a sustainable way below the 9%. So that's one element of your answer.

Second element was relating to possibility to do capital increase on the short to medium term. Once again, two elements in that; financing the regulated activities, financing the non-regulated activities. As far as the regulated activities are concerned, we don’t see the immediate need of doing a capital increase. Taking into consideration the investment plan we have, taking into consideration the acceleration of investment that we can expect, we might do a capital increase on the medium term, depending, of course, also on the evolution of the regulatory framework, especially in Germany, but also in Belgium.

The non-organic growth, if there are some opportunities, but it was your fourth question. And you will – we will come back on that later. We'll have to be financed partly by debt and partly by equity ways.

Then question on possible dividend cut in 2021 or afterwards. I think we have a very clear dividend policy on the dividend which has been validated by the Board of Directors two years ago which is reconfirmed and re-discussed every year. And we don't have any intention for the time being to change this dividend policy. So we are confident in our ability to continue the trends we have and to apply the dividend policy we have.

In terms of M&A, I’ll let you comment, Chris.

Chris Peeters: Yeah. So in terms of M&A, what has changed compared to the past is that in July, our Board approved a upgrade of our strategy where we moved from a situation where we stated it as active weighting, so where we had now not an active team working on looking at certain opportunities to something which is called active shaping, that means that we are not all over the place trying to find a deal, but where we look at specific opportunities which are in line with the strategy that we have developed, focused mainly on two pillars.

One is in the further offshore development, where we might look at certain potential deals that might come up. And the second one is in the digital space where we might look at some, let's say, smaller deals that will integrate some technology that we need for the future. At this point of time, there is no specific deal that we can comment on.

Marleen Vanhecke: Does it answer your questions?

Olivier Van Doosselaere: And policy that effectively – your dividend policy is to grow the dividend at least in line with inflation. Is that correct?

Catherine Vandenborre: Right. That's the right dividend policy indeed, yeah.

Olivier Van Doosselaere: Thank you very much.

Operator: Next questions are from Mr Juan Rodriguez of Kepler Cheuvreux. Go ahead, please. Your line is open.

Juan Rodriguez (Kepler Cheuvreux): Hi. Thank you, and good morning, everyone. One question remaining on my side that I felt was the kind of answered. The first is on the holding cost, because we see some major changes here and movements on the other segment, the non-regulated business. So what could be expected as a recurring level going forward on the holding costs? Thank you.

Catherine Vandenborre: Well, just maybe to recall, the nature of the cost that we have at the holding, first, we have financial costs linked to the acquisitions that we have done in 2018 of 20% of Eurogrid GmbH. Those costs represent €24 million on a yearly basis, together with the senior debts and the hybrid debts. The maturity of those debt will be for the senior one, 2028, so ten years. The hybrid was taken for five years. And so, during this period, we can expect exactly the same level of cost for the senior and hybrid debt. And that's the biggest contributor to the holding cost.

Next to that, we have some costs linked to, let's say, business developments M&A activities and usual management of the holding. Last year, this goes to way around $2.3 million. Of course, if there are some acquisitions that I don't really see an increase, a temporary increase of those costs linked to legal fees and so on to be paid. But on a recurring basis, this amount is also something that we expect to be stable.

Next to that in this segment, we have also in terms of costs, we have costs linked to the development of Re.Alto, the platform. Today, costs are around €1 million. And there again, we don't expect a significant change here in the future. So what you have seen last year in terms of cost at the holding level is something that we see continuing in the next years, which may be at some period of time, a little of addition due to M&A files.

Juan Rodriguez: Thank you. Quite clear. Just to come back on the M&A side, with the possible target would be mainly small to mid-sized acquisitions? So confirm that, or is something bigger could be on the pipeline?

Chris Peeters: We look at both at this point of time. So in the offshore side, are really focused on important new CapEx investment that's mainly linked to the development that we see in the Nordic Seas, both North Sea and Baltic Sea, where we look at what are the kind of opportunities that we could see, but also outside of that region if there would be a technology benefit for us.

And they are – let's say, they are, of course, not of the same size of what we've seen with the increase in Eurogrid, whether we would still be substantial investments that we would do. On the other side, there will be as well investments that are not substantial but are more mainly focused on digital technology where we see that a couple of the elements that we need for the further digitalisation of the system and the integration of new sectors towards or system that we would do – that we need certain technologies that we find in smaller companies outside Elia.

Juan Rodriguez: Okay. That's clear. Thank you so much.

Operator: The following question is from Mr Quirijn Mulder, ING. Go ahead please. Your line is open.

Quirijn Mulder (ING): Yeah. Good morning, everyone. This is Quirijn Mulder from ING in Amsterdam. A couple of questions. My first question is about the Nemo Link holding post and the – that it is non-tax deductible. I understand you made a remark that it is also depending on what's happening at the Group level. So maybe you can elaborate on that. And when do you expect, let me say, that the tax deductibility is over there? That's my first question. Maybe I didn't understand it hopefully, but that's my first question.

And the second question is about 50Hertz. If we look at the naked numbers, we see, let me say, a contribution from CapEx investment of about €16 million and we see a depreciation going up about €21 million. Is that the trend? Are we going to see that the contribution is less than the depreciation because the balance is minus €5 million? And then on the 50Hertz about maintenance, do you expect the peak of the maintenance in 2021, as I understand, is that correct? And that's – and what level do we foresee that?

Catherine Vandenborre: Okay. So on your first question, tax deductibility, you are right in your understanding So maybe to elaborate a little bit on that point. What is behind? First, you know that since 2020 there is a limitation in the tax deductibility at holding level, limitation being set at 30% of the EBIT of the holding company. And as an holding company, it has few to none operational result. There is, in all case, no deductibility for the revenues coming at the holding level.

That being said, in the same legislation, it specified that in case of reorganisation, and as like you know, the holding is a consequence of the organisation – reorganisation of Elia System Operator to Elia Holding and Elia Transmission Belgium. So in case of reorganisation there is a possibility to apply a tax consolidation after a period of five years. And so if you start accounting for this period of five years, we could start the tax consolidation as from 2023 to answer very precisely your question.

Then your second question was about, let's say, the relationship between the increase in remuneration on the one side and the increase in depreciation on the other side. You cannot consider that the increase of depreciations that we have in 2020 will follow, let's say, the same trends or the same evolution over next years compared to previous years. Why? Because you have always the effect of the commissioning.

And in 2020, we commissioned some – sorry, at the end of 2019, we commissioned some infrastructure. And so in 2019, we had very few depreciation for those investment while in 2020, we had the 12 months depreciation to be taken into consideration. So year-over-year, you had a significant increase which is not necessarily reflecting, let's say, a long-term trends in terms of depreciation evolution at 50Hertz.

Then in terms of maintenance activities, the peak in the maintenance activities for 2021. So we confirm, indeed, the peak in these maintenance activities. It's linked to the fact that we don't have only yearly maintenance. We have also maintenance that we do every two years, every three, two years. And this will happen in 2020-2021.

What exactly the amount of this maintenance that we will do will depend also on weather conditions, will depend on our ability to execute the programme. So it's difficult today to give a precise figure on this one. But of course it's computed in the overall guidance 8-10% that we gave you from 50Hertz.

Quirijn Mulder: And it is also sensitive – maintenance is also sensitive to COVID then.

Catherine Vandenborre: Yeah. That's indeed a point if there are some, let's say, distance to be respected on the field, it's always more and more difficult to apply completely your maintenance programme. That being said, we have experienced this year, in 2020, both in Belgium and in Germany, where we managed to implement a number of measures in order to deliver both on the maintenance programme and both on the investment programme. Based on last year, it's not impossible.

Operator: If there are any further questions or remarks, you can still press star one on your telephone. Go ahead, please. We have no further questions. Excuse me. We have one question. Another from Quirijn Mulder, ING. Go ahead, please. Your line is open, sir. Go ahead.

Quirijn Mulder: Yeah, Quirijn again. This is on the story of the intangibles in Belgium. Can you maybe elaborate on what's happening there in the increase of the investment base?

Catherine Vandenborre: Yeah. Basically, what you can see here is that it was a difference in the past between the regulatory treatments of the intangibles and the IFRS treatment of the intangible that we report to you, and that this difference doesn't exist anymore as from the new regulatory framework of 2020.

So very concretely in the past in Belgium, in the regulatory accounting, let's say, all expenses relating to the development of the software were taken directly in the P&L. They were considered as an OpEx, taken into the P&L, and covered by the tariffs for the same amount, while in IFRS and conform to the IFRS standards, those costs were always capitalised and depreciated over the lifetime of the intangible asset in question being between three to five years.

As from this new regulatory framework, the regulatory accounting treatment has been aligned to the IFRS treatment. So it means that, as from 2020, all the costs linked to software development for regulatory accounting, better regulatory accounting, they are capitalised as well and they are depreciated over the years, meaning, that year-over-year you switch from a review, which is based on the total cost for the development of the software to a revenue which is based on the coverage of the depreciation on this software.

And that's where you can see the difference and that's where you can see the impact with the difference year-over-year in the accounts of €12 million. The amount, of course, will decrease over time, because as from you have a perfect alignment on the amount of the depreciation in the regulatory accounting and the IFRS accounting, you don't have any difference anymore.

And on the next three years, we expect the difference to be around €7 million on average. More exactly, next year we expect to have approximately €8.4 million linked to those intangible assets or impact of €8.4 million. Not year-over-year, then but really gross impact.

Quirijn Mulder: Okay. Okay, thank you. That's great. And my final question is about the SuedOstLink, the five, what is it, the 525 kilovolt. Mr Peeters, can you maybe give me an idea about what percentage of the total CapEx in that project is already in your CapEx programme for 50Hertz?

Chris Peeters: Percentage-wise, I would not be able to say that straight away. It is a asset that we will commission in '26. So it is invested over a period of 3.5 years. So you could say and it's quite linear that this investment go. So you could say that we would be around three-quarter of it which is in the five-year horizon.

Catherine Vandenborre: Yeah. I can confirm we will send you the precise amounts later after the call.

Operator: There are no further questions. Please continue.

Marleen Vanhecke: Okay, thank you very much. If there are no further questions, I suggest that we bring this presentation to a close. Thank you, Catherine. Thank you, Chris for your contributions. A recording of this presentation, along with the slides, will be made available online later today. Our next big event, as Catherine already mentioned, will be our Capital Markets Day on 27th April. That will also be a virtual event. Thanks for being with us. And stay safe. See you soon.

[END OF TRANSCRIPT]