

Rating object

Elia Transmission Belgium NV/SA

Long-term Local Currency Senior Unsecured Issues of Elia Transmission Belgium NV/SA

Rating incl. outlook / watch

A / negative

A / negative

The present update is, in the regulatory sense, a public unsolicited rating.

Date of inception / disclosure to rated entity / maximum validity:

Rating object	Date of inception	Disclosure to rated entity	Maximum validity
Elia Transmission Belgium NV/SA	11.03.2022	14.03.2022	Until withdrawal of the rating
Long-term Local Currency Senior Unsecured Issues of Elia Transmission Belgium NV/SA	11.03.2022	14.03.2022	Until withdrawal of the rating

There occurred no changes after the communication of the rating to the rating object.

Rating summary:

Creditreform Rating (CRA) has confirmed the public unsolicited corporate issuer rating of Elia Transmission Belgium NV/SA – hereinafter referred to as the Company or ETB - at **A**. The outlook has been changed to **negative**. The unsolicited corporate issue ratings of long-term local currency senior unsecured notes issued by ETB were also confirmed at **A**, the outlook has also been changed to **negative**. For more information about our rating assessment of Elia Transmission Belgium NV/SA, especially with regard to its earlier development, structural, business and financial risks, we refer to our full rating report from 02.07.2021 which can be found on our website under published ratings.

The current rating attests a high level of creditworthiness to Elia Transmission Belgium NV/SA, representing a low default risk.

ETB has a low business risk profile due to the nature of its business and a supportive regulatory framework. This is further enhanced by its monopoly status as the only transmission system operator in Belgium. A further positive factor contributing to the rating is the relatively stable financial performance of the Company. It generates stable revenues with sufficient margins, has an adequate capital structure and is able to generate stable and relatively predictable cash-flows due to the nature of its business profile. Additionally, the Company's close relationship with the Belgian government, mainly via Elia Group's shareholder Publi-T, also has a positive influence on the rating. These factors are partially offset by the ambitious targets the Company has set itself and by the renewed investment program; therefore we expect a rising indebtedness over subsequent years, which could lead to a deterioration of ETB's financials.

The one-year outlook for the corporate rating is **negative**. This appraisal is based on the current regulatory framework (2020 – 2023) and the adjusted investments ETB plans to make in the coming fiscal years. We continue to assume that the stability and support offered by the regulatory framework required for the financing of these investments will largely remain. However, ETB will have to resort to external debt financing in order to execute its renewed investment plan, which could lead to a deterioration in the financial key figures.

The controlling shareholder of the Group is Elia Group NV/SA, with 100% of the Group's share capital. The Rating is currently constrained by the unsolicited corporate rating of Elia Group NV/SA (**A / negative**, CRA 11.03.2022), as we believe that it has a large influence on the Company's financial and strategic alignment.

In 2021, the total load increased from 81 TWh to 84.5 TWh, but load levels nevertheless remained below the pre-pandemic figures. Against the backdrop of an increase in industrial consumption, the net offtake from the Elia network edged up by 5.8% from 59.8 TWh in 2020 to 63.3 TWh. Also, net injections across the Elia network increased by 18.7% from 59.7 TWh in 2020 to 70.9 TWh in 2021, mainly due to higher nuclear availability. Belgium was a net exporter of electricity due to the higher nuclear availability. A general recovery from the implications of the COVID-19 crisis has been observed in line with gradual release of the lock-down measures.

ETB's total revenue and other income increased by 19.4% to EUR 1,199.5 million, especially due the increase in revenues from management of the electrical system, compensation of imbalances, international revenue and revenues from settlement mechanism. This development was, inter alia, driven by the increase in share of renewables in the generation mix, the general increase in the net grid offtake and the higher nuclear availability.

EBITDA rose slightly to EUR 432.2 million (+1.5%) due to higher regulated net profit and higher depreciations linked to the growing asset base. EBIT amounted to EUR 227.1 million, down by 4.4%, which was driven by depreciations of assets not covered by tariffs.

Adjusted net profit increased from EUR 124.8 million to EUR 131.0 million in 2021, driven by higher fair remuneration, increase in incentives, as well as lower financing costs and lower income taxes.

The rise of total assets by EUR 145.1 million to EUR 7,153.5 million was mainly driven by the expansion of fixed assets in the course of the investment program. In 2021, Elia invested EUR 376.7 million, mainly in its onshore and offshore grid infrastructure. As a result, the regulatory asset base (RAB) increased in Belgium by 5.2% to EUR 5.4 billion. Net financial debt also edged up by 4.1% to EUR 3,441.0 million (+4.1%) following the drawing of commercial paper (EUR 60 million). The Company set up a sustainability-linked revolving credit facility over EUR 650 million, which was undrawn as of year-end 2021. EUR 240 million of the commercial paper program also remained unused.

Equity increased to EUR 2,445.5 million (up by EUR 180.3 million), mainly against the backdrop of the positive result in 2021, with a net profit of EUR 131.0 million.

In order to accelerate the energy transition, ETB has drawn up a new investment plan, which is significantly higher than the prior plan. The new investment plan amounts to EUR 4.0 billion for the period 2022 – 2026, up EUR 1.7 billion from the prior plan for 2020 -2024 of EUR 2.3 billion and up EUR 0.8 billion from its plan for 2021-2025. Approximately one third of the new investment plan will be allocated to maintenance of the existing grid. The residual amount will mainly be allocated to grid reinforcements, cross-border interconnections to integrate renewable energy at a European level, and facilitating offshore energy to accommodate the increasing offshore capacity. The Company plans to increase its RAB by 8 - 9% annually. With the new investment program, we do expect a further increase in the Group's leverage in the medium term.

Overall, we believe that the Company has demonstrated its resilience to the economic crisis resulting from the COVID-19 pandemic, supported by stable regulation, showing an overall positive development in the 2021 financial year, driven mostly by growing asset base and higher incentives. However, we expect further increase in leverage, causing a deterioration of the overall credit position and of the key financial figures, following the implementation of the Company's ambitious investment plan. As Belgian TSO, ETB is not directly affected by the war in Ukraine or the sanctions against Russia. Nevertheless, a further tightening of sanctions against Russia cannot be ruled out. The probable intensification of the energy crisis, with an overall decrease in energy production and transportation, could have an additional negative effect on the Company's revenues.

Based on the unsolicited corporate issuer rating of Elia Transmission Belgium NV/SA (**A / negative**), Creditreform Rating has conducted unsolicited corporate issue ratings of notes issued by Elia Transmission Belgium NV/SA. The rating objects in question are exclusively the long-term senior unsecured issues denominated in euro, which have been issued by Elia Transmission Belgium NV/SA and which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the ECB's website. We have provided the debt securities issued by Elia Transmission Belgium NV/SA with a rating of **A with negative** outlook.

Primary key rating drivers:

- + The operative figures largely showed a recovery from the implications of the COVID-19 pandemic in 2021
- + Overall stable development as a result of stable regulatory framework
- + Increase in equity

- Increase in net financial debt in the course of investments
- Adjustment of the investment plan with further increase in capex for 2022-2026
- Expected deterioration of key financials in the course of ambitious investment plan and the need of increase in debt to finance it combined with pressure on the operating costs following the growth and modernization of assets

ESG-criteria:

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Elia Group NV/SA we have not identified any ESG factor with significant influence.

Based on the sustainability report of Elia Group S.A. and other documents available to us, we currently assess the risks from ESG factors in relation to the rating object as low. In October 2021 the Group received an ESG risk rating of 9.9 and was assessed by Sustainalytics to have a negligible risk of experiencing material financial impacts from ESG factors. Elia Transmission Belgium has a sustainability-linked revolving credit facility in place.

As a TSO we believe that Elia Group plays an important role in the decarbonisation of the energy market by integrating an increasing amount of renewables into its systems. ETB assigned a strategic priority to the decarbonisation of society. Compared to its peers, we consider the Company's environmental, social and governmental aspects to be average.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found [here](#).

Rating scenarios:

Please note: The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Best-case scenario: A

In our best-case scenario for one year we assume a rating of A. We believe that a rating upgrade within the time horizon of one year is unlikely. The reason for this is primarily the updated investment plan, which entails a ramp-up in investments. We therefore expect the Group to increase its leverage in the medium term. The Rating is currently constrained by the unsolicited corporate rating of Elia Group NV/SA (A / negative, CRA 11.03.2022), as we believe that it has a large influence on the Company's financial and strategic alignment.

Worst-case scenario: A-

In our worst-case scenario for one year, we assume a rating of A-. In this scenario we assume a further increase in leverage, which has an adverse effect on the financial key figures for ETB, deteriorating its credit profile. Another significant upward adjustment in the investment plan could also have a detrimental effect on the Company's rating. The revenues could also be negatively affected by the implications of a threatening energy crisis in Europe and an overall decrease in power generation and transportation against the backdrop of the war in Ukraine and the resulting sanctions against Russia.

Analysts / Person approving (PAC):

Name	Function	Email-Address
Elena Damijan	Lead analyst	E.Damijan@creditreform-rating.de
Sabrina Mascher de Lima	Analyst	S.Mascher@creditreform-rating.de
Tobias Stroetges	PAC	T.Stroetges@creditreform-rating.de

Initial rating:

Rating object	Event	Rating created	Publication date	Monitoring until	Result
Elia Transmission Belgium NV/SA	Initial rating	02.07.2021	www.creditreform-rating.de	10.03.2022	A / stable
LT LC Senior Unsecured notes issued by Elia Group NV/SA	Initial rating	02.07.2021	www.creditreform-rating.de	10.03.2022	A / stable

Status of solicitation and information basis:

The present rating is, in the regulatory sense, a public **unsolicited** rating. The rating object participated in the creation of the rating as follows:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

Rating methodology / Version / Date of application:

Rating methodology	Version number	Date
Corporate Ratings	2.3	29.05.2019

Government-related Companies	1.0	19.04.2017
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

Regulatory requirements:

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating¹ was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

¹ In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA [website](#).

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

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Creditreform Rating AG

Contact information

Creditreform Rating AG

Europadamm 2-6
D-41460 Neuss

Phone: +49 (0) 2131 / 109-626
Telefax: +49 (0) 2131 / 109-627

E-Mail: info@creditreform-rating.de
Web: www.creditreform-rating.de

CEO: Dr. Michael Munsch
Chairman of the Board: Michael Bruns

HR Neuss B 10522